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China Report

ECONOMIC AFFAIRS



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20 May 1985

CHINA REPORT

ECONOMIC AFFAIRS

CONTENTS

PEOPLE'S REPUBLIC OF CHINA

NATIONAL POLICY AND ISSUES

Problems of Cities as Economic Centers Analyzed (Li Changyu; HUANZHONG SHIYUAN XUEBAO, No 6, 30 Nov 84)	1
PRC Renews Fight Against Industrial Hazards (XINHUA, 3 May 85)	7
Briefs	
Urban Housing Survey	9

PROVINCIAL AFFAIRS

Discussion of Shanxi's 1984 Financial Budget Fulfillment (SHANXI RIBAO, 29 Nov 84)	10
Successful Fulfillment of Shanxi's 1984 Economic Plan Reported (SHANXI RIBAO, 29 Nov 84)	13

AGGREGATE ECONOMIC DATA

Yunnan Publishes 1984 Economic, Social Statistics (YUNNAN RIBAO, 26 Mar 85)	15
Anhui Township Enterprises Play Important Role (Anhui Provincial Service, 22 Apr 85)	29
Briefs	
Shandong Industrial Output Value	30
Anhui Industrial Output Rises	30

ECONOMIC MANAGEMENT

Journal on Rural Commodity Economy, Industry (Zhou Qiren; JINGJI YANJIU, No 2, 20 Feb 85)	31
Importance of Small-Scale Economy Discussed (Shen Liren; JINGJI YU GUANLI YANJIU, No 6, 30 Nov 84)	45
Journal on Fixed Asset Investment Scale (Li Guoliang, Xiao Jingcheng; JINGJI YANJIU, No 2, 20 Feb 85)	54
Heilongjiang Province Makes Progress in Urban Economy (Heilongjiang Provincial Service, 28 Apr 85)	66
Role of Law of Value in Special Economic Zones (Tang Huozhao; JINGJI YANJIU, No 2, 20 Feb 85)	68
Henan Radio on Urban Economic Restructuring (Henan Provincial Service, 23 Apr 85)	76
Sichuan Leader Speaks on Economic Coordination (Sichuan Provincial Service, 27 Apr 85)	78
Paper Summarizes Discussion on Market Regulation (Qi Xiang; JINGJIXUE ZHOUBAO, 7 Apr 85)	80
Briefs	
Shaanxi Develops Economic Cooperation	87
Urban Economic Restructuring	87

FINANCE AND BANKING

Journal on Chinese Road of Price Reform (Hua Shang, He Jiacheng; JINGJI YANJIU, No 2, 20 Feb 85)	88
Anhui Holds Auditing Work Conference 6-10 April (ANHUI RIBAO, 12 Apr 85)	102
Gansu Issues Circular on Relaxing Food Industry Policies (Gansu Provincial Service, 25 Apr 85)	103
New Financial Management Implemented in Guangzhou Province (Li Sensheng; NANFANG RIBAO, 20 Jan 85)	104
Briefs	
Tax Payment in Hubei	106
Tobacco Industry Tax for 1984	106
Tianjin Outside Fund Utilization	106
Qinghai Increases Rural Deposits	107
Use of Fen Coins	107

CONSTRUCTION

- Briefs
Shandong's Yantai Harbor Project 108

FOREIGN TRADE AND INVESTMENT

- Business Paper Urges Expansion of Exports to Japan
(XINHUA, 22 Apr 85) 109

- Briefs
Bus Production With FRG Help 111
Shanghai Greet French Minister 111

LABOR AND WAGES

- Labor Union Functions Described
(Editorial; GONGREN RIBAO, 13 Jan 85) 112

- Briefs
Younger Industrial Workers 114
ACFTU Awards Medals 114
Rationalization, New Technology Urged 114
Rural Industrial Progress Marked 115

TRANSPORTATION

- Hainan Holds Consultative Conference on Port Development
(Hainan Island Service, 25 Apr 85) 116

- Briefs
Plan Fulfilled Ahead of Schedule 117
Construction of New Highway 117

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

- Hong Kong's Economy Analyzed
(GUOJI MAOYI WENTI, No 1, Jan-Feb 85) 118

- Hungarian Economic Management Reform
(Chen Xueyan; SHIJIE ZHISHI, No 7, 1 Apr 85) 147

HONG KONG MEDIA ON CHINA

- Shenzhen's Failure To Attain Special Zone Goals Discussed
(Lei Jingbin; TA KUNG PAO, 3 Apr 85) 151

NATIONAL POLICY AND ISSUES

PROBLEMS OF CITIES AS ECONOMIC CENTERS ANALYZED

Wuchang HUANZHONG SHIYUAN XUEBAO [JOURNAL OF CENTRAL CHINA TEACHERS COLLEGE]
in Chinese No 6, 30 Nov 84 pp 1-4

[Article by Li Changyu [2621 2409 3778]: "Some Questions Related to Economic Center Cities"]

[Text] The construction of Chinese-type socialism and the new aspect of the economic system reform has put on the agenda an important question of how to improve the function of large cities as economic centers. By the end of May 1984 the State Council officially approved the city of Wuhan as an experimental city for a comprehensive reform of urban systems. It is necessary to discuss some theoretical questions about the development of economic center cities in order to carry out the big social change, to build up the urban system or the network of economic cities, to bring out the special functions of socialist cities, to combine production with the society and to organize and adjust economic life in the cities and countryside.

I

The city is a social historical area. As a political and economic center, it is a complicated social body, about which one can make various interpretations from different viewpoints.

One of these interpretations is that a "city is a state-approved unit, in which the density of non-agricultural residents has reached a certain degree." This interpretation emphasizes the density of non-agricultural residents and accordingly divides the cities into four categories--extra large, large, medium and small.⁽¹⁾ This kind of definition has a certain technical base, and it is a simple method and easy for statistical census in order to control the sizes of the cities and to follow the policy of "strict control of the growth of big cities, reasonable development of medium-size cities and encouragement of the growth of small cities" and to follow the injunction of "building up small cities." This policy and injunction are important for further developing the four modernizations program of China and for speeding

(1) For example, some persons divid China's cities according to the population: superlarge city--1 million or more residents; large city--500,000 to 1 million; medium-size city--200,000-500,000; small city--200,000 or less.

up the construction of socialist cities. However, this definition emphasizes the administrative aspect of the cities and divides them according to their sizes but does not touch the quality and function of the cities as economic centers.

Another interpretation is to define the modern cities as economic centers according to the density of population giving economic benefits to the social collectives, according to their economic power and to their level of science and technology and their intellectual capacity, location and geographical conditions. This interpretation summarizes the general characteristics of modern cities. It says that modern cities differ from the cities of the past. Basically, new cities have grown up not for political needs but have developed as economic centers on the basis of a division of social production and of a developed exchange of commodities and as areas for concentrated economic activities. Economic center cities have a concentration of organizations, equipment and space for productive activities, exchange, distribution and consumption and their coordination and cooperation. Therefore the cities are more capable of gaining economic benefit.

The corresponding interpretations provide an obvious description of the massive concentration of population and the non-agricultural nature of the land. The residents of cities are engaging in industrial production, commercial business, scientific-technical activities, cultural-educational work and other support work. In other words, they are not living on agricultural income. The main economic portion of their everyday needs comes from the market. Therefore, the modern economic center cities and their dependent economic zones, including other cities and rural agricultural areas, have close economic relationships between them.

On the other hand, cities have their specific residents who are performing various activities. Residents of cities in their frequent contacts are exchanging information, sending messages to each other and giving stimulation to each other to create more and more constructive ideas and achieve new scientific and technical successes. Thereafter they are able to move the urban economy to further development, which results in the growth of the local and national economy.

However, the aforesaid definitions are only the general interpretations of modern cities. Although those interpretations include some characteristics of socialist cities, they do not disclose the nature of socialist cities. Socialist cities are not only assemblies of productive-force groups or local carriers of the national economy but also special organizational forms of the organic body of the socialist planned economy, that is, the junctions and transfer centers of social and economic activities. This special nature and function of socialist cities will be showed to the world as the result of China's comprehensive reform of large cities. According to the demands of the modernization and distribution of the productive force, China will, in a planned way, achieve the urban reform program and build up a Chinese-style urban system. By displaying the comprehensive functions of cities with different characteristics we will put in an organized way all economic

activities, improve combinations of the economy inside and between the economic units, improve the combination of the local economic system with the state-operated economic system, improve the combination of individual enterprises with city- or province-operated economic units and the combination of planned regulations with market functions and realize the planned management of the national economy.

Concerning cities as economic centers, we were discussing the general characteristics of modern cities as economic centers and the special nature and functions of socialist central cities. However, as a matter of fact, cities do exist as the organic parts of society or as a part of the unified system of the national economy. Even if we study modern cities in terms of their economies, we cannot say that the cities have a purely economic existence. They are the economic, political and cultural centers that are playing their roles and functions in organizing social life. In this article we will be limited in analyzing cities as economic centers and will not touch the other functions of cities.

II

Economic center cities as the joining hubs and connecting bodies of the national economy are in fact the intermediate organizations of the socialist planned economy. A socialist country needs a well-planned and instructively planned economy with market-adjustable factors to run and manage the national economy and also needs economic center cities as special economic bodies to organize the economic activities of the whole society. Only in this way can the national economy really become a social and economic system with high efficiency and flexible maneuverability.

First of all, let us take a look at this matter from the viewpoint of large-scale socialized production. In the socialist conditions of China the cities as economic centers are still the bodies with the most economic levels, because the economy needs a multi-level organizational system. The socialist industrial workers are organized directly in enterprises of syndicates and work in the urban areas. Entrepreneurs as independent producers and managers doing their own production according to a unified plan and quotas are the base of all social production. Related enterprises, classified by their products and production technology, are joined into productive groups, and many enterprises related in their locations and classifications are joined into productive units. The independent production activities of various enterprises and their unity are organized to a certain degree. All these units with a variety of groups form the whole process of social production. A socialist country--as the representative of this productive will or determination, as the body of labor unification and social production and as the highest organization of the social economy--plans, manages, controls and adjusts the whole national economy and its progress. Economic center cities play their uniting function and joining role and have their special and indispensable economic positions.

Second, China's socialist regime of public ownership is a complicated structure with many economic levels. This determines that China's planning

system cannot be a simple system of regulation. The fact that China's productive forces have many levels determines that the public ownership system has some differentiation in its economic management. This results in the long-term existence and development of the commodity economy of China. The constantly growing attraction of economic center cities depends on their commodity-monetary economy and also on media and bodies which transfer the city's functions as financial and commercial networks and media of exchange (including currency and transport equipment). Center cities are able to use their functions as economic centers to join with other parts of the national economy and as connecting, adjusting and managing organizations between the central level and local levels of the whole economy (including administrative and executive organizations, which carry out the planning program and statistical and price formulations, and which have union organizations). In coordination with the financial, revenue, monetary, labor and commercial organizations the cities share the division of production and also direct, coordinate and supervise social reproduction and economic exchange, and then the cities successfully combine the planned economy with market regulation.

Third, China is a big socialist country with a largely public-ownership economy and a combination of various economic forms. This requires having a central policymaking system combined with the policymaking functions of enterprises, local economic administrations and local governments. The Chinese planned economy is supported by economic cities, which join different kinds of local economic activities and coordinate local economic functions with rural economic activities. All these determine the unified Chinese planned economic system of balancing the national economy. The cities are the joining points of the central plans and local regulations. So the cities as the socialist economic centers carry out their functions of organizational administration, coordination, control and adjustment. An intensive city construction program will be beneficial both for development of the city economy itself and for coordination among local areas and is also conducive to including local economic development into the national plans and to realizing the central plans.

III

Generally, modern cities are the centers of certain regions. The cities we are talking about are super-large cities and large cities, which are the supporters of nationwide or multi-province economic centers. They are either attractive local economic centers because they have comprehensive economic activities or because they have indispensable linking functions in those areas of the country. Modern economic center cities have both their powerful "radial" efforts and "attractive" functions. The intensity of their efforts and functions depends on the economic power itself and also on the organizational administration, managerial ability and density of the rural economic network.

Economic center cities as the core of local economic groups in the national economy exist together with economic areas.⁽²⁾ On the one hand, an economic center cannot exist without economic areas. The economic potential of an economic center city depends first of all on the resources (including natural resources, social and economic resources and cultural level), on the form of division of production, on the property preference and on the comprehensiveness of economic power. Naturally, each city's economy has its local characteristics of the division of production. That is why the central economic cities have an indispensable position in the national economy. On the other hand, economic center cities play a very important role in the formation and development of economic regions. Centrally planned economic regions cannot exist without their centers, and the construction of economic center cities needs local resources. This has a stimulating function on the prosperity of the whole regional economy, including agricultural production, industry owned by provinces, cities and counties and enterprises operated by the people's communes and production brigades. These prosperous regions exist around large cities, especially the areas with a density of cities and towns, for example, the Yangtse Delta area with Shanghai as its center and the Peking-Tienjin-Tangshan area with Tienjin as its center. Therefore, the degree of development of the cities and their density are in fact indicators not only of the development of the cities but also of the whole social economy.

No central economic city can exist by itself. It not only depends on local resources and social and economic conditions, but it must also encourage other cities with different characteristics and sizes to develop. Meanwhile the central cities have to join with other cities into a coexisting bloc and into a related network of cities--the center cities themselves and the related system of other cities. Chinese economic areas in construction and development must reflect the socialist city-and-countryside relationship and must become regional economic systems with urban industries, enterprises of communes and productive brigades and agriculture and sideline production included. These regional economic systems have economic center cities as links and have rural areas as its hinterland.

- (2) Xue Baoding [5641 1405 7844], Lin Senmu [2651 2773 2606] and Chen Xuansan [7115 6693 0005] from a strategic angle analyzed the restricting function of areas on urban development. They pointed out that the area creates itself as an environment of the city and is the space and material basis for the existence and development of the cities. The land resource (its area and fertility) restricts the structure and scale of utilization of the land of the cities and countryside. The developed level of agriculture restricts the portion of non-agricultural residents. The construction of towns and the development of enterprises operated by people's communes and production brigades in rural areas put the pressure of rural residents on the cities and influence the control of city population.... ("Some Questions on the Development Strategy of the Economy of Medium-size Cities" RENMIN RIBAO 9 March 84).

Wuhan is of course the biggest inland economic center city of China. We have in mind a larger area as well as the whole Yangtse Basin and a larger area than Hubei Province. This does not mean that we can ignore a coordinated development of the province and the adjoining cities. We have to plan appropriately and reasonably place some industrial aspects into the adjoining cities and transmit some technology out of the central cities. This way gives the central economic center a free hand to reform the urban economic system, to readjust the industrial structure, to build some new industries, to assist weak parts of the economy, to carry out technical development and importation, to renew the technology and equipment, to elevate the quality and the management level and to avoid excessive or uncontrollable growth. On the other hand, a reasonable expansion of industry to other cities enables the other cities around Wuhan to build up medium-size and small economic centers, to establish a surrounding urban system and therefore to extend the center city power to the Central Plains, to the Yangtse River basin and to other parts of the country in order to join with other economic regions centered around large and super-large cities and to form a nationwide network of economic regions. The uniting points of this network are the economic center cities. The networks of the cities surrounding these cities become the coexisting blocs in the system of economic center cities and in fact become the resource bases of the center cities.

The practice of socialist construction is putting Marx's theory of economic center cities, including the essentialness, categories and functions of the cities, again on the theoretical and practical agenda and very obviously puts the economic center cities into a special position of junctions between the economic regions and connections between the central and local parts of the national economy. The two aspects of social production included in Marx's theory of reproduction and the proportion of the various areas of the national economy are undoubtedly the theoretic bases in organizing the Chinese planned economy. However, we have to find the key links, which could assure a constant equilibrium between the national economy in order to join the social and economic activities amidst the regions and between the levels and to coordinate the functions of different economic networks. Evidently, the theory of economic center cities with organized production-force blocs is an important theoretical basis for a thorough realization of the socialist planned economy. A recognition and research of Marx's theory of economic center cities undoubtedly have an important instructive meaning for the reform of the urban economic system, for the acceleration of China's four modernizations program and for the formation of the Chinese urban system and network of economic center cities.

12715

CSO: 4006/340

NATIONAL POLICY AND ISSUES

PRC RENEWS FIGHT AGAINST INDUSTRIAL HAZARDS

00031750 Beijing XINHUA in English 1647 GMT 3 May 85

[Text] Beijing, May 3 (XINHUA) -- China will launch another phase of its battle against industrial dust and poisons, which are still a threat to the workers, a senior Chinese official said here today.

Addressing the opening session of the National Conference on Controlling Industrial Dust and Poisons, He Guang, vice-minister of labor and personnel, said that these dangers have not been eliminated despite past achievements.

The government took a decision on controlling industrial dust and poisons and adopted a series of measures for this purpose last summer, he recalled.

Nearly 20 types of industrial dust and poisonous materials have been listed as the most dangerous killers, and enterprises are required to allocate money for protective installations.

The Chinese Government has decided to gradually close those plants which pose the most serious threats and have no immediate prospects of improvement. All new establishments must install safety facilities in step with their main projects.

Trade unions are urged to support the workers when they refuse to work in face of dangers to their life. Enterprises which fail to follow these policies will be fined or punished according to the law, the decision stipulates.

In order to achieve all this, the vice-minister urged all those involved, rural enterprises in particular, to publicize the serious danger of industrial dust and poisons, and the significance of guarding against them.

He said surveys and research would be carried out to explore possible methods of control, and enterprises should look to new materials and technology to resolve the problem. Several relevant laws were being drafted, he disclosed.

Despite the above measures, he said, the problem was getting increasingly serious and several accidents had occurred this year.

According to ministry statistics, cases of silicosis in the nation's enterprises have increased at the annual rate of about 10 percent, and the problem is even more serious in mining areas with heavier concentrations of dust.

He Guang said that with rural industries booming in recent years, many small mines with inadequate safety facilities had been developed by collectives and individuals.

"Yet with effective measures, this danger can be guarded against and workers protected, even in the most dangerous occupations," he said.

To illustrate his idea, he cited the success of a tungsten mine in southern Jiangxi province, where cases of silicosis among miners have fallen to 0.5 percent from 25 percent in the early 1950's, and eight pits have been free of this disease for the past two decades.

CSO: 4020/211

NATIONAL POLICY AND ISSUES

BRIEFS

URBAN HOUSING SURVEY--Beijing, May 4 (XINHUA) -- China' first urban housing survey is to begin July 1, to help planners draw up economic and social development schemes and improve people's housing conditions. It will cover the amount, quality, utilization and ownership of housing in all urban areas, the ministry of urban and rural construction and environmental protection announced today. The survey will be conducted by the ministry in cooperation with the state statistical bureau. More than 100,000 surveyors have been trained across China since last June. Preparations are now ready in most parts of the country, the ministry said. The survey's deadline is set at December 31, 1985. [Text] [Beijing XINHUA in English 0649 GMT 4 May 85]

CSO: 4020/211

PROVINCIAL AFFAIRS

DISCUSSION OF SHANXI'S 1984 FINANCIAL BUDGET FULFILLMENT

Taiyuan SHANXI RIBAO in Chinese 29 Nov 84 p 3

[Article: "Feng Tiejian in His Report to the 10th Conference of the Standing Committee of the 6th Congress of the People's Representatives of Shanxi Province Pointed Out That Fulfillment of the Financial Budget of Shanxi Province in 1984 Was Successful"]

[Text] On 27 November, Feng Tiejian [7458 6993 6943] chief of the financial department of Shanxi Province, on behalf of the provincial government, made a "Report on the Fulfillment of the 1984 Financial Budget" to the 10th conference of the standing committee of the 6th congress of the people's representatives of the province.

Feng in his report made some explanation of the 1984 budget. He said that the State Ministry of Treasury made some supplements and reductions to the 1984 provincial budget which had been approved by the second conference of the sixth provincial congress of people's representatives because of the growth of the national economy, and the provincial people's government made a rearrangement of the 1983 financial surplus; some changes were made both in income and in expenditures. The income budget, which had been approved by the provincial congress of people's representatives, was 2,495,460,000 yuan; until the end of October, the readjusted figure had been 2,477,060,000 yuan, which is 18.4 million yuan less. The main factors of readjustment were 12,420,000 yuan as the additional payment to the State Ministry of Treasury for the difference in price of cotton and 5.5 million yuan as a bonus for purchasing extra grain in 1983 and for compensation of the debt made to the grain enterprises. The income of Shanxi Province was relatively less.

The provincial financial expenditure budget, which was approved by the second conference of the sixth provincial congress of the people's representatives, was 3,081,390,000 yuan, including 21.92 million yuan as a state supplement for special items; the surplus income of the provincial departments, cities and counties in 1983 was 7.95 million yuan; and the additional payment of the provincial financial department was 41.72 million yuan. That money was mostly used for the construction of grain storehouses, highways, mountain-area electrical supplies and school and research equipment and partly for the prevention of flooding of small towns, water supplies and the construction of towns in the countryside.

Regarding the fulfillment of the 1984 budget, Feng Tiejian said that the political and economic situation in Shanxi Province is excellent. The industrial production, the circulation of commodities and the economic benefits were improved. Because of the development of the economy, the financial income increased on a large scale. Until the end of October, the figure for financial income was 2,200,880,000 yuan, which is 88.5 percent of the adjusted budget, and is 13.93 percent higher than in the same period for 1983. The fulfilled expenditure was 2,188,140,000 yuan, which is 67.27 percent of the adjusted budget and 27.81 percent higher than in the same period for 1983.

After reporting the main situation of the fulfillment of the budget, Feng Tiejian said that the financial activities of Shanxi Province were inspired by the party rectification campaign, which corrected some incorrect guiding ideas, carried out some reforms and achieved certain successes.

First, financial income was generated faster and increased to a large scale. The production and the profit turned over to the state both increased, and it is estimated that the 1984 planned income will be exceeded.

Second, owing to the reform of the provincial economic system and to the change from interest regulation to a tax program, the enterprises have become more autonomous, which encouraged the activities of enterprises in production and management and stimulated the increase in production and economic benefits.

Third, the province used the investment in a selected way to help the counties stop being financially subsidized by the province, proceeded with highway construction and increased the export of coal to other provinces.

Fourth, the province paid more attention to education and increased school funding. In April 1984, the second conference of the sixth provincial congress of people's representatives approved the education budget for 1984. After that, the financial department of the province, cities and counties spent an additional 9.32 million yuan. Thus, the original education fund of 363,250,000 yuan was increased to 372,270,000 yuan. If the investment for schools, factories, transport, commercial business, agriculture, forestry, and water, plus 11 million yuan for professional high schools and 19.56 million yuan for party-political courses are included, the total provincial education fund is 403.13 million yuan, which is 20.71 percent of the expenditures from the province's financial income. This figure does not include 39 million yuan for the construction of school buildings. This increased education fund has played a big role in the development of school activities and school instruction and in preparing more qualified people.

Feng Tiejian listed the duties of the province's financial organization for November and December 1984:

First, to carry out conscientiously the decision of the 3d Plenum of the

12th Central Committee of the Chinese Communist Party, seriously complete the second part of the program for changing interest into taxes, continue the reform and improve financial and revenue regulations in order to promote the complete reform of the city economic system.

Second, to make persistent efforts to fulfill the 1984 quota of financial income. The financial institutions must try harder to bring down the cost price, change the debt into profit, clear up any balance due, investigate tax evasion, improve management in requisition regulations, prohibit any illegal increase in the cost price of products and making excuses for tax deductions and put all collected money into the treasury.

Third, to control strictly the flow of money, especially to avoid the practice of spending more money at the end of a year, and to avoid the practice of "eating next year's food." From now on, the financial leadership will not approve any request for additional expenditures. It is necessary to control the purchasing power of social blocs. In the last 2 months of 1984 the social groups should not purchase any goods that are marked as "state-controlled selling items." Social institutions and other organizations are not allowed to purchase goods which are not controlled by the state but are more popular. The social blocs are not allowed to invade the market. The provincial administration must strengthen its inspection and supervision of the financial regulations. Those who dare to steal state income by fraud or trickery, practice extravagance and waste or commit other crimes will be strictly investigated and punished.

12715

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PROVINCIAL AFFAIRS

SUCCESSFUL FULFILLMENT OF SHANXI'S 1984 ECONOMIC PLAN REPORTED

Taiyuan SHANXI RIBAO in Chinese 29 Nov 84 p 3

[Article: "Liu Shangji [0712 1426 0579] in His Report to the 10th Conference of the Standing Committee of the 6th Congress of People's Representatives of Shanxi Province Pointed out That Shanxi Province Fulfills the 1984 National Economic Plan and Social Program of the Province Successfully"]

[Text] On 27 November, Liu Shangji [0712 1426 0579], deputy chief of the provincial planning committee, on behalf of the provincial government, made a "Report on the fulfillment of the 1984 National Economic Plan and Social Development Program of Shanxi Province" to the 10th conference of the standing committee of the 6th congress of people's representatives of the province.

He pointed out that Shanxi Province further implemented the policy system of responsibility for fixed output by designated units and achieved another increased harvest in 1984 on the basis of bumper harvests in the 3 preceding years. It is expected that the 1984 output of grains will be 16.7 billion jin, which is 3.6 percent higher than in 1983; also, the production of cotton, oil beans, sugar beets, tobacco, natural fibers, herbs and other items is much higher than in 1983.

The increase of industrial production continues to keep growing. The total value of industrial output from January to October 1984 is 13,975,820,000 yuan, which is 87.4 percent of the planned output for 1984 and which is 12.6 percent higher than in the same period of 1983. It is estimated that the total value of industrial output will be 16.7 or 16.8 billion yuan. Thus, the target for the total value of industrial output, which is included in the Sixth 5-year Plan, can be fulfilled 1 year ahead of time. Until the end of October, among the 100 items of industrial products that were included in the testing plan for the province, the quotas for 30 items were fulfilled and the quotas for another 30 items were overfulfilled. Coal mining from January to October 1984 in the province was 13.5 percent higher than in the same period for 1983. It is estimated that the coal production in 1984 will be more than 170 million tons, which is higher than the target set for the Sixth 5-year Plan. Production in light industry, textiles and the electronics industry can meet the basic requirement for marketing, and the production of durable items increased dramatically.

The assigned amount of investment for capital construction was fulfilled. The construction of major projects is increasing and the beneficial results of all investments went up. Investment of fixed assets in the province was fulfilled from January to October up to 2,707,070,000 yuan. By the end of October, 86 percent of the state investment in major projects was fulfilled. They put into service No 1 generating unit of the new Tatong Power Station and a Datong-Fangshan 500-kilowatt extra-high tension power line (first circuit). By the end of this year, the Xiqu pit of Gujao coal mine, No 6 Guishigou coal mine of the Yangquan coal area, No 2 mine of Yangquan, the No 2 generating unit of the Tatong Power Station and the long-distance electrified double line of the Fengtai-Shacheng railroad line will be put into service.

Marketing in the cities and countryside is brisk, and the financial income and expenses of individuals are much higher than the year before. Medical services, science and technology, cultural activities, physical education and other social activities have reached new heights as the material and cultural lives of the people have improved.

The report at the end says that before the end of 1984 the following four points have to be achieved:

First, to continue the reform of the planning system. Through research and study, by December a tentative plan of reform should be worked out. Meanwhile, some flexible measures will be taken so that large problems can be properly controlled and small matters can be opened up to local organizations.

Second, to help the weak links of the provincial economy. So far, the problem of unsalable fabrics and the shortage of pork meat must be resolved.

Third, regardless of the situation in production and construction, some necessary amendments in the annual plan of the province should be made.

Fourth, to work out the provincial economic plan for the year 1985 and the provincial plan of the Seventh 5-year Plan.

12715

CSO: 4006/332

AGGREGATE ECONOMIC DATA

YUNNAN PUBLISHES 1984 ECONOMIC, SOCIAL STATISTICS

HK250845 Kunming YUNNAN RIBAO in Chinese 26 Mar 85 p 2

[Report by Yunnan Provincial Statistical Bureau: "Communique on Fulfillment of Yunnan's 1984 Economic and Social Development Plan"]

[Text] Under the leadership of the provincial CPC committee and the provincial government, the people of Yunnan Province continued in 1984 to implement the principles of invigorating the domestic economy and opening to the outside world. The province quickened the pace of the restructuring of the economic system, with the stress on urban reform. The rural economy grew more and more specialized, commercialized, and modernized. Remarkable progress was made in economic and social development and production grew at a relatively fast speed. According to statistics, the total product of society (Note: Total product of society is the sum of the total output value of agriculture, industry, the building trade, communications and transportation, and commerce, including the supply and marketing of materials and equipment and the catering trade. National income is the sum of the net output value of the five above-mentioned material producing departments. All figures for the total product of society, total industrial output value, total agricultural output value, and national income cited in the communique are calculated in terms of 1984 prices, and the rate of growth over the previous year is calculated on comparable prices.) came to 23.703 billion yuan, 14.5 percent higher than in 1983. Of that sum, the total output value of industry and agriculture was 18.693 billion yuan, 15.4 percent above the previous year. National income reached 12.28 billion yuan, up 14.8 percent from 1983. Most of the targets set by the sixth 5-year plan were fulfilled ahead of schedule. The total output value of industry and agriculture, national income, revenue and expenditure, as well as the output of grain, sugar-cane, tobacco, tea, sugar, television sets, raw coal, generated energy, steel, rolled steel, 10 kinds of nonferrous metals, cement, plate glass, chemical fertilizer, and 25 major industrial products met in advance the quotas set for 1985 by the state plan. Based on the growth of production, the market was brisk, living standards continued to rise, and new progress was made in the building of spiritual civilization. However, the growth of energy and communications failed to meet the development of the entire national economy, consumption funds grew rapidly, and the prices of some commodities, particularly dried fruit, aquatic products, woolen fabrics, and furniture rose substantially.

1. Agriculture

Thanks to the earnest implementation of Central Document No 1 and the decisions and measures of the provincial CPC committee and government in 1984, the economic reform in the rural areas continued to develop. On the basis of the further perfection of the contracted responsibility system with payment linked to output, the number of rural people engaged in industrial, commercial, and construction undertakings, as well as in the service trades, increased rapidly. The rural economy grew more and more specialized, commercialized, and modernized. Commodity production developed rapidly and the commodity rate of farm products in 1984 reached 53.7 percent. Following the good yields in the 4 successive years, another bumper harvest was reaped in agricultural production in 1984. The total output value of agriculture was 7.736 billion yuan (not including the output value of rural industry run by towns (townships) and villages (brigades)), up 15.2 percent from the previous year. Of the total sum, crop cultivation brought in 4.878 billion yuan, an increase of 10.5 percent over 1983; forestry produced 0.597 billion yuan, an increase of 30 percent; animal husbandry yielded 1.579 billion yuan, an increase of 13.6 percent; sideline occupation brought in 0.655 billion yuan, an increase of 44.7 percent; and fishery produced 27 million yuan, an increase of 12.4 percent. The proportion of the output value of forestry, animal husbandry, sideline occupation, and fishery rose from 57.9 percent in 1983 to 61.7 percent.

The output of most of the major farm products, except rapeseed which decreased due to reduction of sown area, increased by a big margin. Total output of grain topped 20.1 billion jin. The output of major farm products was as follows:

	1984	Percentage increase over 1983
Grain	20.1 billion jin	5.3
of which:		
rich	10.018 billion jin	9.6
Oil-bearing crops	2.4743 million dan	-10.4
of which:		
Peanuts	611,500 dan	19.1
Rapeseed	1.6738 million dan	-21.3
Sugar-bearing crops	75.6027 million dan	6.6
of which:		
Sugarcane	75.5511 million dan	6.7
Tobacco	5.7213 million dan	86.9
of which:		
Flue-cured tobacco	5.5 million dan	90.4
Silkworm cocoons	34,000 dan	27.8
Tea	563,300 dan	9.5
Fruit	4.5275 million dan	35.0

In 1984, the enthusiasm of the peasants was aroused owing to the further implementation of the policies of the provincial CPC committee and government on "private plots" and "hills assigned to peasants based on the responsibility system." Afforested areas in the province reached 8.29 million mu (the figure was 10.23 million mu including fruit trees and replanting of seedlings), an increase of 86.1 percent over 1983. The output of major forest products increased at varying rates. Of this, rubber totaled 29,800 tons, up 10.4 percent; tung-oil seeds, 314,000 dan, up 2.8 percent; walnuts, 621,700 dan, up 10.6 percent; and chestnuts, 60,100 dan, up 19.5 percent. However, the output of pine resin and raw lacquer decreased.

Animal husbandry continued to develop and the number of large animals and sheep in stock at year-end increased by a big margin. Increases were also registered in the output of pork, beef, and mutton, as well as in the numbers of hogs slaughtered and pigs in stock at year-end. Output of major animal by-products and numbers of livestock was as follows:

	<u>1984</u>	<u>Percentage increase over 1983</u>
Output of pork, beef and mutton	515,900 tons	5.9
of which:		
pork	499,000 tons	6.0
Hogs slaughtered	7.4427 million head	5.7
Large animals at year-end	8.2569 million head	7.2
Pigs at year-end	17.0158 million head	1.6
Sheep and goats at year-end	7.4565 million head	6.1

Fish production continued to grow. The output of aquatic products was 22,000 tons, an increase of 12.4 percent over 1983.

Technical equipment and conditions for agricultural production continued to improve. At the end of 1984, the aggregate power capacity of the province's farm machines had reached 5.5366 million horsepower, an increase of 10.5 percent over 1983. The number of large and medium sized tractors was 18,412, 213 more than in 1983; small-capacity and walking tractors, 61,069, 12,054 more than in the previous year; trucks, 7,523, 1,709 more than 1983; and irrigation and drainage equipment, 46,445 sets, 2,657 more than in the previous year. As the application of farm manure was increased, a total of 1.4723 million tons of chemical fertilizers were applied during the year, 2,400 tons less or a decrease of 0.2 percent over the previous year. The total consumption of electricity in rural areas was 0.67 billion kilowatt-hours, 6 million kilowatt-hours more or an increase of 0.9 percent over 1983. The total area under irrigation was 14.424 million mu, 46,000 mu more than in 1983.

2. Industry

The principle of readjustment, restructuring, consolidation, and improvement was further implemented in industrial production in 1984. Centered on attaining better economic results and based on consolidation and technical transformation of the existing enterprises, the pace of technology import and technological cooperation quickened. Coordinated development was achieved between heavy and light industries, and overall economic results improved. The total industrial output value for 1984 was 10.957 billion yuan (including industries run by towns (townships) and villages (brigades)), up 15.5 percent. Of this, the total industrial output value of 8 national autonomous prefectures and 14 national autonomous counties increased by 14.4 percent over the previous year.

In 1984 another 6 provincial products won top-quality national awards and 139 products won top-quality provincial awards. The output of 59 of the 80 major industrial products met or topped state plans. They included steel, pig iron, raw coal, generated energy, chemical fertilizer, cement, plate glass, television sets, tobacco, and so on.

The total output value of light industry in 1984 was 5.38 billion yuan, a 13.5 percent increase over 1983, accounting for 49.7 percent of the total industry. Of this, the output value of food industry went up 15 percent, textile industry increased 5.8 percent, and other light industries rose 13.4 percent. In food industry, sugar refinery went up 8.2 percent and cigarette industry went up 18.6 percent. The output value of the two trades accounted for 52.3 percent of the province's food industry.

The output of major light industrial products was as follows:

	1984	Percentage increase over 1983
Cotton yarn	32,489 tons	0.6
Cotton	143.42 million meters	-2.6
Chemical fibers	1,905 tons	1.9
Woolen piece goods	210,000 meters	unchanged
Silk	104 tons	1.0
Silk fabrics	2.9 million meters	16.5
Machine-made paper and paper boards	77,159 tons	7.6
Sugar	307,700 tons	7.0
Cigarettes	1,7507 million cases	18.0
Beer	9.300 tons	72.6
Salt	291,900 tons	1.9
Chemical pharmaceuticals	139 tons	15.8
Detergents	14,115 tons	17.2
Bicycles	130,700	-16.3
Sewing machines	1,100	-96.7
Wrist-watches	64,800	-7.4
Television sets	62,300	68.2
Radios	6,100	-52.5
Cassette recorders	22,500	1.1
Household washing machines	28,156	40.7
Light bulbs	19.33 million	12.1

The 1984 heavy industrial output value was 5.577 billion yuan, up 6.7 percent over 1983. Of this, the output value of metallurgical industry went up 10.4 percent, building materials industry went up 22.6 percent, and machine building industry went up 21.3 percent. Primary energy output was equivalent to 10.76 million tons of standard coal, an increase of 11.4 percent over the previous year. Energy conservation efforts made progress and 45 major energy consuming enterprises saved a total of 293,100 tons of standard coal.

The output of major heavy industrial products was as follows:

	1984	Percentage increase over 1983
Coal	15.36 million tons	8.9
Electricity	7.027 billion kilowatt-hours	14.0
of which:		
hydro-electricity	3.938 billion kilowatt-hours	23.9
Pig iron	617,400 tons	7.0
Steel	533,900 tons	10.3
Rolled steel	477,900 tons	7.5
Coke	1.5007 million tons	17.6
Timber	3.0672 million cubic meters	10.3
Cement	2.6439 million tons	16.5
Plate glass	1.2391 million standard cases	38.2
Sulphuric acid	233,300 tons	12.5
Soda ash	20,500 tons	9.7
Chemical fertilizers	592,500 tons	9.7
of which:		
nitrogenous fertilizer	397,800 tons	11.4
phosphate fertilizer	194,700 tons	6.2
Rubber outer tyres	285,600	29.2
Power generating equipment	25,800 kw	25.0
Machine tools	3,100	18.3
Trucks	2,702	270.0
Tractors	109	-40.4
Walking tractors	9,871	28.5
Internal-combustion engine	533,600 horsepower	47.0

The reform of the industrial economic system added new vitality to enterprises, aroused the initiative of the workers and staff for production, and brought forth better economic results. In 1984 the output value of state-owned industrial enterprises increased by 14.5 percent over the previous year and that of the collective-owned industrial enterprises went up 17.5 percent. The industrial total output value of the budgeted state-owned industrial enterprises increased by 11.6 percent over 1983. Their sales income increased 13 percent, profits went up 25.9 percent, income tax and profit delivery increased 45.9 percent, and product sales tax went up 23.4 percent. Synchronized growth between output value,

sales income, and tax and profit delivery was achieved. The turnover period for working funds was shortened by 2.9 percent. Per-capita productivity rose 11.8 percent. The amount of deficit incurred by enterprises running at a loss dropped by 13.4 percent. The number of enterprises running at a loss decreased from 19.8 percent in 1983 to 16.6 percent. However, the cost of comparable products went up 1.1 percent as compared with 1983.

3. Investment in Fixed Assets and the Building Industry

Capital construction in 1984 registered fresh progress in further implementing the principle of concentrating efforts and resources to build key construction projects and in actively reforming the administrative system. Total investment in fixed assets for state-owned enterprises came to 2.413 billion yuan, 390 million yuan or 19.3 percent more than the previous year. The additional fixed assets in the year amounted to 1.79 billion yuan and their availability rate was 74.2 percent.

Of the total investment in fixed assets for state-owned enterprises, 1.373 billion yuan went into capital construction, 14.3 percent more than in 1983. Of this, 536 million yuan was investment from the state budget, up 23.6 percent over 1983; 167 million yuan was from domestic loans, down 14.7 percent; and 546 million yuan was from self-raised funds, up 8 percent. Investment in local capital construction was 873 million yuan, up 15 percent. The figure stood at 522 million yuan after deducting the amount not included in the state plan, accounting for 96.2 percent of the state's adjusted plan. Investment in capital construction in 8 national autonomous prefectures and 14 national autonomous counties was 546 million yuan, up 19 percent over 1983.

Construction of key projects was strengthened. Of the investment in capital construction, 368 million yuan went into energy projects, a 52.7 percent increase over 1983; 83.8 million yuan was channeled into transportation and posts and telecommunications, up 55.4 percent; and 139 million yuan went into education and scientific research, up 24.1 percent. Of the investment in capital construction, 823 million yuan was for productive projects, up 29.1 percent, accounting for 59.9 percent of the total, up 6.8 percent over 1983; and 550 million yuan was for nonproductive projects, down 2.5 percent. Investment in housing amounted to 272 million yuan, a decrease of 9.8 percent from the previous year.

The tempo of the construction of 31 large and medium sized projects was quickened, absorbing 588 million yuan in investment, 98.1 percent of the annual plan. The large and medium sized projects completed and put into operation included the Kaiyuan cement plant and the Dongchuan, Jinggu Zhongshan, Yongsheng, and Genma sugar refineries. In addition, 3 single items attached to large and medium sized projects were completed and put into operation.

Headway was made in the technical revamping of existing enterprises. In 1984 the province made use of a total investment of 1.04 billion yuan for equipment replacement, technical updating, and other purposes, of which the investment in equipment replacement amounted to 774 million yuan, up 33.5 percent over 1983. Of the investment in equipment replacement, 71.73 million yuan was used to expand production and in energy conservation projects, up 42.6 percent, the proportion of investment increasing from 8.7 percent in 1983 to 9.3 percent; and 106,450 yuan was used to increase the variety of products and to raise the quality of products, up 78.7 percent, the proportion of investment increasing from 10.3 percent in 1983 to 13.7 percent.

A total of 2,903 construction projects were completed in 1984. Of this amount, 1,782 were capital construction projects, the percentage of the projects finished was 51.7 percent; and 1,121 were projects for equipment replacement, the percentage of the projects finished was 51 percent. The industrial products put into operation could help increase 563 million yuan of industrial output value and 306 million yuan of profits and taxes. Investment in capital construction and equipment replacement last year helped add the following capacities: 260,000 tons of coal, 25,000 kilowatts of power generating capacity, 370,000 tons of cement, 53,000 tons of sugar, 270,000 cases of cigarettes, 13,000 tons of spirits, 3,360 tons of paper, 10,000 cotton spindles, 30,000 washing machines, 38,000 tons of chemical fertilizer, 2,800 tons of plastic, 400,000 tons of iron ore dressing, 14,000 tons of steel rolling, 54,600 tons of tin ore dressing, 76.64 million cubic meters of water capacity in new reservoirs, 129,400 mu of irrigated area, 2,021 places for university and college students, 74,007 places for secondary school students, 20,407 cinema and theater seats, and 2,176 hospital beds.

The reform of the capital construction management system was accelerated. In 1984, a total of 132 capital construction projects implemented the investment contracted responsibility system and achieved remarkable results. According to the statistics of 8 projects put out for tender, the costs proposed in the tenders accepted were on the average 10.5 percent lower than expected and the time of construction was 10 percent under the plan.

The reform of the building industry was fully under way. According to a survey of 327 state-owned and collective building enterprises, 253 implemented various forms of contracted responsibility systems and the construction of 81.7 percent of the housing area was carried out under the system of contracted responsibility. A total of 57 enterprises implemented the responsibility system of contracting the amount of wages used for the output value of every 100 yuan. The reform of the building industry pushed production forward and brought forth better economic results. The total output value of the state-owned building enterprises increased by 21.8 percent over 1983, per capita productivity rose 26.2 percent, and the percentage of engineering work rated "excellent" increased by 1.5 percent.

Geological surveying work registered remarkable achievements. In 1984 the provincial geological bureau and the geological departments under the nonferrous metal, coal, building materials, chemical industrial, and petroleum systems found 25 mines worth tapping and submitted 38 various kinds of reports to the higher authorities. The total drilling footage was 269,000 meters, a 10.2 percent increase over 1983.

4. Communications and Posts and Telecommunications

In 1984 the various transportation departments and enterprises handled 9.47 billion ton-kilometers of goods, up 14.8 percent from 1983. Of this, the railways handled 6.27 billion ton-kilometers, an 18.1 percent increase; and trucks handled 3.162 billion ton-kilometers, up 11 percent.

The gross volume of passenger transportation was 5.757 billion person-kilometers, an 18.3 percent increase over 1983. Of this, the railways carried 1.673 billion person-kilometers, up 12.7 percent. The volume of road passenger transportation was 4.02 billion person-kilometers, up 23.7 percent; and the volume of air passenger transportation was 35 million person-kilometers, up 13.5 percent.

Posts and telecommunications transactions in 1984 amounted to 57.2 million yuan, up 5.3 percent from 1983. Of this, the number of letters handled went up 8 percent, newspapers and magazines distributed went up 6.5 percent, long-distance telephone calls were up 5.3 percent, and telephone subscribers in the urban areas increased by 7.6 percent. Due to price adjustments, the number of telegraphs dropped by 12.6 percent over 1983.

Economic results improved somewhat in the transportation departments. Per capita productivity for railway transportation was up 16.1 percent over the preceding year. Locomotive fuel consumption per 10,000 ton-kilometers went down 0.2 percent and the profits made went up 34.8 percent. Per capita productivity of the enterprises directly under the administration of the provincial communications department was up 15 percent over 1983. Petroleum consumption by vehicles per 100 ton-kilometers of goods volume dropped by 3.6 percent, diesel oil consumption by vehicles per 100 ton-kilometers of goods dropped by 3.3 percent, and the total amount of profits increased by 23.6 percent.

5. Domestic Trade

The supply of market commodities continued to grow in 1984, bringing in its wake increased retail sales. The province's 1984 retail sales reached 7.379 billion yuan, up 18.8 percent or 15.7 percent excluding the rise in prices (of this, retail sales of the 8 national autonomous prefectures and 14 national autonomous counties increased by 18 percent over the previous year). Of the total retail sales, consumer goods grew 18.8 percent and farming materials and equipment increased 18.7 percent. Retail sales of most principal consumer goods increased over the previous year. Increases included grain, 16 percent; edible oils, 23.1 percent;

pork, 21 percent; fresh eggs, 42 percent; sugar, 3.8 percent; cotton cloth, 11.4 percent; woollen piece goods, 80.8 percent; silks and satins, 56.9 percent; knitting wool, 6.5 percent; knitwear, 7.1 percent; wrist-watches, 42.9 percent; bicycles, 21.7 percent; television sets, 54.9 percent; electric fans, 18.8 percent; cassette recorders, 5.9 percent; washing machines, 92.9 percent; and refrigerators, 290 percent.

In the reform of the commercial system, the province established a commercial network characterized by diversified forms of economy and management and circulation channels. By the end of 1984, the province set up 26 urban trade centers. A total of 2,535 small state-owned enterprises in the retail business, the catering trade, and other service trades were given a free hand in management. Of these, 1,021 were leased to collective management, 1,341 were turned over to collective ownership, and 173 were leased to individuals. The number of commodity fairs in both cities and the countryside increased from 2,337 in 1983 to 2,554 in 1984. Retail sales in all sectors of the economy increased, with the individual economic sector registering a faster growth. The total amount of retail sales in the public-owned sector increased 11.6 percent, retail sales in the collective sector rose 22.8 percent, and retail sales in the individual economy went up 12 percent. Retail sales by peasants to non-agricultural residents went up 18.8 percent.

Market trade in urban and rural areas was brisk. The total volume of urban and rural market trade in 1984 was 1.56 billion yuan, an increase of 15.4 percent over the previous year. Of this, transactions in meat, poultry, eggs, aquatic products, vegetables, and dried fruit went up 20.5 percent. Of the volume of business in the trade markets, the proportion of manufactured goods rose from 6.5 percent in 1983 to 8.7 percent, an increase of 54 percent. Transactions in farm and sideline products increased by 13 percent over 1983.

Sales of major means of production in 1984 rose over the previous year. Coal sales rose 9.3 percent; rolled steel, 12.4 percent; timber, 13.3 percent; and cement, 18.3 percent. Of these, sales to rural areas by material departments increased 6.4 percent for rolled steel, 40.8 percent for cement, and 83.8 percent for heavy-duty trucks. In order to invigorate the economy and expand the circulation of commodities, sales centers increased from 465 in 1983 to 480, which included 5 trade centers concerned with the sales of various kinds of materials.

Market prices rose to varying degrees. The general price indices for state purchases of farm and sideline products rose an average of 3.9 percent over the previous year. This was caused by increases in the amount of grain purchased, the proportion of above-norm purchases at increased prices, and the increasing amount of grain purchased and sold according to negotiated prices. The general retail price index in 1984 rose an average of 2.7 percent over 1983. The price rose 2.4 percent in the urban areas and 3 percent in the rural areas. The price of non-staple food rose 3.4 percent; meat, poultry, and eggs, 2.9 percent; aquatic products, 6.2 percent; preserved vegetables, 12 percent; fruit, 9.7 percent; and

garments, 0.8 percent. Prices for grain and cultural and recreational goods remained basically the same as in the previous year. The price for farming materials and equipment rose 6 percent. The cost of living index for workers and staff rose 2.6 percent over 1983. Of this, prices for consumer goods rose 2.4 percent and those for service trades went up 3.9 percent. There were some serious price problems, such as the fact that some enterprises forced up the prices of certain commodities or raised prices in disguised forms.

6. Foreign Economy and Trade, Tourism

There was a considerable growth in the province's import and export trade. According to statistics by foreign trade departments, imports and exports came to \$149.92 million, a 1.8 percent rise over 1983. Of this, exports totaled \$110.54 million (including exports on an agency basis amounting to \$36.8 million), a decrease of 6.7 percent over 1983. Imports totaled \$39.38 million, an increase of 37.1 percent over 1983. Exports outstripped imports by \$71.16 million. The volume of the province's frontier trade totaled \$14.79 million. Of this, exports came to \$7.17 million and imports, \$7.62 million.

In exports, the proportion of machines and machine equipment rose from 3.2 percent in 1983 to 3.5 percent; that of light industrial, textile, and arts and craft goods rose from 6.2 to 7.9 percent; that of chemical industrial and mineral products dropped from 34.7 to 28.8 percent; and that of grain, edible oils, tea, animal by-products, and local specialty goods rose from 49.2 to 52.1 percent.

In imports, the proportion of light industrial and textile goods dropped from 26.3 percent in 1983 to 16.1 percent; that of hardware, mineral, and chemical industrial products rose from 31.6 to 36.6 percent; and that of machines and instruments rose from 42.1 to 47.1 percent.

The tourist industry developed further. In 1984 the province attracted 55,988 visitors from over 50 countries and regions, who came for sight-seeing, visiting relatives and friends, or carrying out trade, sports, scientific, and cultural activities, a 42.5 percent increase over the previous year. Of these, 35,096 were foreigners, accounting for 62.7 percent; 4,484 were overseas Chinese, accounting for 8 percent; and 16,408 were compatriots from Hong Kong and Macao, accounting for 29.3 percent. Foreign exchange earned through tourism was \$14.05 million, 90.1 percent more than the previous year. Of this, income from the selling of commodities was \$2.17 million, accounting for 15.4 percent; income from providing accommodation and food was \$6.64 million yuan, accounting for 47.2 percent; and income from offering transportation, posts and telecommunications, and other services was \$5.24 million, accounting for 37.3 percent.

7. Science, Education, and Culture

Advances were made in science and technology, which played a remarkable role in aiding economic construction in 1984. The number of major research results in science and technology came to 67 items. This included 13 inventions and discoveries (1 international invention, 1 advanced international level, and 11 national inventions) approved by the state; and 54 inventions and discoveries (4 advanced international level, 14 national inventions, and 36 advanced national level) approved by the ministries concerned and the province. For example, in agriculture, the technology of improving red soil was applied in an area of 4.39 million mu, which resulted in an increase of 200 million jin of grain, 4 million yuan from economic crops, and a net benefit of 25.64 million yuan. In medical science and public health, the success in establishing the transplantable rat pancreas cancer tissues for the first time in China was of great value to the study of the metastasis of carcinoma and the screening of medicines. In industry, due to the success in the experiment of daily handling 100 tons of refractory tin ore by means of high-temperature chlorination, 200 tons of tin were produced in 1984 creating an output value of 6 million yuan. The success in developing the "514" new type of bactericide was awarded 40,000 yuan at the national meeting to exchange experience in tackling scientific and technological problem hurdles. The above-mentioned scientific research results were applied in agriculture, industry, medicine and public health, social development, and a dozen of other fields and the rate of utilization reached 76.9 to 91.7 percent respectively.

Scientific and technological exchange and coordination work made further headway. In 1984 the province established contacts with 82 scientific and technological organizations, enterprises, and corporations from 19 countries, received scientific and technological exchange delegations of 13 countries, and signed 17 letters of intent, memoranda, and cooperation agreements. At the provincial scientific and technological fair held in September and October, 256 contracts were signed, concluding a transaction of 20.945 million yuan. In addition, technical consultative services for 73 items of 67 units throughout the province were undertaken.

In 1984 the province's state-owned enterprises had 144,200 natural science professionals and technicians, of which 21,100 were from minority nationalities.

The education system quickened its pace in the course of readjustment and reform. In higher education, diversified standards and forms of multi-layered teaching were introduced. While teaching quality was improved, the number of students grew considerably. Institutions of higher learning enrolled 190 postgraduates. There were 376 postgraduates studying in the province, 190 more than in 1983, of whom 20 were from minority nationalities, 7 more than the previous year. Universities and colleges enrolled 8,901 students, 1,738 more than in 1983. These schools had a total student body of 24,937 last year, 4,081 more than in 1983, of which 4,441 were minority nationality students, 1,206 more than the previous year. Adult higher education institutions had a total student body of 14,079 last year, 2,479 more than the year before.

Restructuring continued in secondary education. Agricultural secondary schools and vocational schools developed rapidly. The number of ordinary secondary school students was 939,100, a 9.3 percent increase over 1983. Of this total, the number of minority nationality students was 200,300, an 11.3 percent increase over the previous year. Secondary technical schools had 43,000 students, up 16.2 percent. Of this total, the number of minority nationality students was 11,000, up 11.4 percent. Workers' training schools had 10,500 students, up 29.8 percent. Agricultural middle schools and vocational middle schools had 29,700 students, up 77.8 percent, of which 6,100 were from minority nationalities, an increase of 72.5 percent over 1983.

New progress was scored in popularizing primary school education. The number of pupils in primary schools increased from 4.579 million in 1983 to 4.9755 million, an increase of 396,500. The rate of school-age children entering school rose from 88.5 percent in 1983 to 92.2 percent.

Pre-school education and programs for the blind, deaf, mute, and mentally retarded developed to some extent. Kindergartens had 175,200 children, 3,300 more than in 1983. Schools for the blind, deaf, mute, and mentally retarded had 408 students, 99 more than the previous year.

Cultural units and the media made strong contributions toward developing socialist culture and ethics. Last year the province had 6,040 cinemas and film projection units, up 28.9 percent or 1,355 more than in 1983. Of the total, 4,856 were film projection teams, up 32.2 percent or 1,182 more than the previous year. The province had 158 performing art troupes; 148 cultural centers; 1,456 cultural clubs, up 42 percent or 431 more than in 1983; 149 public libraries; and 10 museums, 5 more or 100 percent over the previous year. Of these, the national autonomous prefectures and counties had 238 cinemas, an increase of 36; 2,990 film projection teams, up 25 percent or 748 more than 1983; 85 performing art troupes; 83 cultural centers; 807 cultural clubs, up 38 percent or 221 more than the previous year; and 81 public libraries. There were 5 radio stations, 32 radio transmitting and relay stations, 1 television station, and 10 television transmitting and relay stations, each with a capacity of more than 1,000 watts. Some 221 million copies of provincial, prefectural, and county newspapers, 12.23 million copies of various kinds of magazines, and 125 billion books and picture books were published in 1984.

8. Public Health and Sports

Public health work made further headway in 1984. The number of hospital beds reached 66,700 by the end of the year, an increase of 4.4 percent. Professional health workers numbered 84,800, up 3.2 percent as compared with the end of 1983. The total included 41,200 doctors, up 7.6 percent; and 16,800 nurses, up 2.2 percent. Due attention was given to the work of epidemic prevention and the people's health improved.

In 1984 the province's athletes broke 6 national records and 13 provincial records. They also won 20 gold, 10 silver, and 16 bronze medals in national sports meets. A total of 1,053 sports meets were held at the county level and above with a total participation of 274,800 people. Some 596,700 people met the requirements prescribed by the "State Standards for Physical Cultural and Sports Training," a rise of 120 percent over last year. In 1984 the province built 140 sports facilities of various kinds and sports activities became more popular all over the province.

9. Living Standards

Living standards in both cities and the countryside were improved in 1984. A sample survey of 610 peasant families in 28 counties showed an average annual per capita net income of 310.4 yuan, topping 300 yuan for the first time, up 16.4 percent or 43.8 yuan more than in 1983. Average per capita living expenses were 260.6 yuan, up 16.4 percent or 36.8 yuan more than the previous year. A sample survey of 330 worker and staff households in Kunming, Gejiu, and Dali cities showed an average annual per capita income of 577.6 yuan, up 16.8 percent or 83 yuan more than in 1983. Even allowing for the rise of 2.6 percent in the cost of living, real income for workers and staff still rose by 13.8 percent. Average per capita living expenses were 527.3 yuan, up 9.8 percent or 47.2 yuan more than the previous year.

In 1984 jobs were given to 80,700 people in urban areas. The province had 2.5632 million workers and staff by the end of the year, 92,700 more than at the end of 1983. Licensed self-employed workers in the cities and towns totaled 82,800, an increase of 18,000. The annual wages of workers and staff in 1984 totaled 2.54 billion yuan, up 25.3 percent or 513 million yuan more than in 1983. The average annual cash wage for workers and staff was 1,014 yuan, up 20.7 percent or 174 yuan more than the previous year. Of this, the average annual cash wage for workers and staff of state-owned enterprises was 1,049 yuan, up 21.8 percent or 188 yuan more than in 1983; and that of collective-owned enterprises in cities and towns was 823 yuan, up 13.5 percent or 98 yuan more than the previous year. The second half of 1984 saw the rise of a grave problem--some departments and organizations indiscriminately issued bonuses, allowances, and consumer goods to their workers and staff.

Urban and rural savings deposits continued to grow. By the end of 1984, individual bank savings had amounted to 2.224 billion yuan, 37.5 percent more than the 1983 year-end figure. Of the total, urban savings deposits amounted to 1.707 billion yuan, up 38.2 percent; while rural savings deposits totaled 517 million yuan, up 35.2 percent. Average per capita bank savings reached 67 yuan, 17.7 yuan more than the previous year.

Housing for both urban and rural dwellers was further improved. Houses completed by state-run and collective enterprises in cities and towns in 1984 totaled 2.87 million square meters of floor space. This did not include the 11.19 million square meters of new housing built by peasants.

Social welfare continued to improve. Rural collectives provided for 68,154 elderly, disabled, widowed, and orphaned people who had nobody else to support them, up 450 percent from the 1983 figure; and the 320 homes for the aged in rural areas housed a total of 3,834 elders, a 380 percent increase. There were 53 social welfare institutes and children's welfare institutes in cities and towns in 1984, providing for some 1,723 people.

The province stepped up efforts to help poor village families develop production. In 1984 assistance was given to 51,300 such families, and 44,300 of these families or over 200,000 people were able to shake off their poverty.

The number of workers who died or were severely injured while on duty increased over 1983. It is therefore necessary to vigorously strengthen labor protection and safety work.

10. Population

According to statistics from public security departments, the province's population by the end of 1984 was 33.623 million, 432,000 more than the 1983 year-end figure 33.191 million. Of the total, 10.652 million were minority nationalities, 190,000 more than the 1983 year-end figure.

Family planning work registered remarkable success. According to a sample survey of 56,025 residents in 253 cooperatives (neighborhood groups) in 20 counties (districts), the province's birth rate in 1984 was 20.29 per thousand, the mortality rate was 7.92 per thousand, and the natural growth rate was 12.37 per thousand. The three figures dropped respectively by 3.28, 1.27, and 2.01 per thousand over the previous year.

CSO: 4006/576

AGGREGATE ECONOMIC DATA

ANHUI TOWNSHIP ENTERPRISES PLAY IMPORTANT ROLE

OW241231 Hefei Anhui Provincial Service in Mandarin 1100 GMT 22 Apr 85

[Excerpts] Since 1984 township enterprises have developed rapidly in Anhui Province with a high adaptability and have played an increasingly important role in Anhui's share of the national economy. By the end of 1984, there were more than 422,800 township enterprises in the province with more than 2.2 million people engaged in those enterprises, accounting for more than 12 percent of the total labor force in the rural areas. The total output value of those enterprises reached more than 4.69 billion yuan, accounting for 13.81 percent of the total value of industrial and agricultural output in the province.

Since 1979 township enterprises have earned a total profit of 1,484.9 million yuan, of which 584.9 million yuan were earned in 1984. Since 1979 township enterprises in the province have paid more than 443 million yuan of tax to the state, of which 183.4 million yuan were paid to the state in 1984.

In 1984 various township enterprises produced 7.7 billion pieces of brick and 1.1 billion pieces of tile, accounting for 85 percent of the total output of bricks and tiles in the province. They produced 510,000 metric tons of cement in the same year, accounting for 20 percent of the local output of cement in the province. The 155 small coal pits in the province produced 1.37 million metric tons of coal in 1984, accounting for one-third of the total local coal output. The total output value of local food industry in 1984 was more than 700 million yuan, accounting for 15 percent of the total output value of food industry in the province.

Township enterprises are peasants' main source of additional income. In 1984 the average annual wage of those who were engaged in township enterprises was 539 yuan, and the per capita income of agricultural population from township enterprises was 98.3 yuan.

CSO: 4006/576

AGGREGATE ECONOMIC DATA

BRIEFS

SHANDONG INDUSTRIAL OUTPUT VALUE--In the first quarter of 1985, the total industrial output value of Shandong Province reached 2.866 billion yuan, an increase of 23.8 percent over the corresponding 1984 period. Of this, the output value of heavy industry increased by 22.8 percent and that of light industry, 24.6 percent. [Summary] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 12 Apr 85]

ANHUI INDUSTRIAL OUTPUT RISES--The total value of industrial output in Anhui Province in the first quarter of this year reached 5,136 million yuan, accounting for 25.6 percent of the annual plan and increasing by 30.8 percent over that of the same period last year. It has met the demand set by the provincial CPC Committee and the provincial people's government on coordinated development with a fast beginning. In order to ensure the stable development of production in the second quarter, the provincial economic commission recently held a meeting on coordinating production, which was attended by responsible persons of various concerned provincial departments and bureaus. The meeting analyzed the situation of industrial production in the first quarter and made initial arrangements for production work in the second quarter. [Excerpts] [Hefei ANHUI RIBAO in Chinese 11 Apr 85 p 1]

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ECONOMIC MANAGEMENT

JOURNAL ON RURAL COMMODITY ECONOMY, INDUSTRY

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[Article written on 16 January 1985 by Zhou Qiren [0719 0366 0088] of the Research Group on Problems Concerning the Rural Development of China: "Development of Rural Commodity Economy and Reform of the Industrial Structure"--passages within slantlines published in boldface]

[Text] At present, a new situation has emerged in the countryside of our country. Especially since the urban structural reform has been placed on the agenda, the reform of the city and that of the rural areas have been interacting, which is leading to a more profound reform in the countryside. In this unprecedentedly profound reform of the rural areas, a series of new problems have emerged which require urgent, extensive, and intensive discussions, so that a new understanding can be gained and new conclusions be reached.

I. A Turning Point Amid Growth

From 1979 to 1983, the total agricultural output value of our country increased 46.3 percent when calculated on comparable prices, a yearly average increase of 7.9 percent. In 1984, the growth in agriculture continued to rapidly increase. Our agriculture, which had been in a state of stagnation for a long time, has at last achieved a breakthrough, which shows that the economic reform in the countryside has achieved strategic success.

In examining the process of this growth, it can be discovered that the decisive motivating force comes from the tremendous development of commodity production. According to the data published by the State Statistics Bureau, the total purchases of social agricultural and sideline products in 1983 amounted to 126.5 billion yuan, an increase of 127 percent compared with 1978, for a yearly average increase of 17.8 percent. During the same period, the amount of deals concluded in the urban and rural trade fairs for agricultural products increased at an even greater speed, recording a yearly average increase of 25.3 percent. The commodity rate in the countryside in 1983 reached 59.2 percent. (Commodity rate in the countryside equals (total purchases of social agricultural and sideline products plus amount of internal exchange among peasants at

fairs plus total sales of industrial products in townships and villages) divided by (total output value of agriculture at current prices plus total output value of industry run by townships at current prices) multiplied by 100 percent. The trade and commodity price department of the State Statistics Bureau holds that this can reflect the proportion of rural commodity activities more comprehensively than the commodity rate of agricultural and sideline products. See "Statistics" Vol 12, 1984, p 25) Of course, these figures still cannot reflect the considerable currency income of the peasants obtained from labor services in recent years. It is estimated that the currency income of the peasants in the whole country obtained from their labor services in 1983 increased 50 percent compared with 1978, a yearly average increase of 8.4 percent. In a period of 5 years, the net currency income of the peasants of the county increased nearly 200 percent, a yearly average increase of 24.2 percent. The currency income and the currency expenditure of almost all the peasant households increased to a noticeable degree. It is obvious that the development of the rural economy should be first attributed to the development of commodity economy activities. The system of household contracts with payment linked to output elicited the all-round collapse of the rural self-sufficient and semi-self-sufficient economy and motivated millions of peasants to develop commodity economy on a large scale. This is not a deduction of logic, but a reality which holds throughout the country.

The direct result of the above reform is the radical change of the situation regarding the supply and demand of agricultural products as commodities.

For many years the supply of grain and cotton could not meet the demand. However, great changes have taken place in recent years. Around 1983, the grain and cotton purchased in various localities became surplus. The outstanding feature was that in 1983, the amount of grain purchased in the country increased by 34.2 percent compared with the previous year, but sales increased only 5.4 percent. In the same period, the amount of cotton purchased increased by 34.3 percent over the previous year, but the sales of cotton cloth decreased by 4 percent compared with the previous year. It became increasingly difficult for the peasants to sell their grain and cotton, and the state was in a difficult position in regard to buying all the grain and cotton offered by the peasants and did not have enough facilities to store them or to sell them as required. For the first time in history our country experienced a "crisis of storage capacity" for grain and cotton.

From the perspective of the markets, a serious situation of supply exceeding demand existed for grain and cotton. It should be noted that "demand" here means the need to purchase by society. Commodities are not gifts, and they have to be compatible with purchasing power. Our country has a large population, and the consumption of grain and cotton is very great. However, the total buying power for grain and cotton is much smaller than the total social amount of consumption, because a considerable proportion of the consumption in the lives of the peasants is self-sufficient.

According to a survey on peasant household conditions, of all consumer goods, the basic necessities have a higher degree of self-sufficiency; of the basic necessities, food products have a higher degree of self-sufficiency; and of the food products, grain has a higher degree of self-sufficiency. In recent years, most of the commodities provided by the peasants as commodity producers are grain commodities. As commodity consumers, they buy the least grain commodities. The majority of our population is peasants. Consequently, the total amount of requisite food products needed on our current markets is smaller than the total amount of social consumption. Overlooking this characteristic will hamper our correct judgment of the total capacity of the grain market. The case is somewhat different in regard to the cotton market. But the fact remains the same--it is very hard to sell. Today, the average amount of grain and cotton possessed by each person in China is still lower than the average level of the world, but this does not constitute a reason to negate the fact that there is a surplus of grain and cotton as commodities. As a matter of fact, the absolute capacity of the market for grain and cotton as commodities is even smaller in the past, but this fact is overshadowed by the long-term lack of supply. This change from being in short supply to being in surplus supply for grain and cotton is a most important turning point.

However, there are many incongruous phenomena in the change. For example, on the urban and rural markets, the supply of grain increases but the supply of pork decreases; the total quantity of grain is in surplus, but a number of varieties are in short supply; the retail prices of fresh vegetables, fruits, and aquatic products in the country rise sharply, which is much talked about; and there is insufficient investment in the food industry, resulting in an overstock of materials in warehouses but an insufficient supply of many varieties of food products on the market. Judging from these, we should say that strong buying power exists, but, regrettably, there is an insufficient supply.

Here arises a problem. On the one hand, a large quantity of grain and cotton has been stacked in the state warehouses and the peasants are still active in growing and selling these products; on the other hand, there is an inadequate supply of agricultural products and food products needed on the market. It is only natural that such a sharp contrast has led to a variety of comments.

The correct answer can be found in the process of the realization of the market for our agricultural and sideline products.

At present there are mainly two paths for our agricultural and sideline products to enter the market. One is the path of state monopoly of purchase and marketing, and the other is the path of trade fairs. The opening and expansion of the latter have broken the monopoly of the former and have caused a certain degree of reform of the former. However, there are radical differences between the mechanisms of the paths.

The original state monopoly of purchase and marketing meant the monopoly of the entire market. This situation has been changed. In 1979, the purchase prices for agricultural and sideline products were greatly raised. After that, the false representation of prices for real value was rectified to a certain extent. This was a kind of progress. However, the fundamental maladies remained unchanged. The major problem was the fact that the price mechanism followed the old track. The newly raised purchase prices likewise could not sensitively reflect the changes of the value of agricultural products and the changes in the situation related to the supply and demand of the market. As stated above, the supply of grain and cotton in the country increased drastically around 1983 and the market conditions changed, but the prices under the state monopoly of purchase and marketing could not reflect this at all. In particular, after the market grain price fell steadily to the level below that offered by the state for above-quota grain, the state's purchase price became, in effect, a preferential price. Furthermore, the practice of buying whatever quantity the peasants were able to provide naturally encouraged the peasants to actively expand their production and sales of grain. However, the grain which had been purchased at a higher price could not be sold without subsidies added, and the sales of such grain with heavy subsidies on the part of the state made it hard for the country to bear the burden. This was an effect of which the peasants were not aware. Once the grain had been sold and money obtained, they presumed that the society still needed such grain at higher prices. The peasants carried out production actively for the "market," and this "market" was the granary of the state. Different kinds of transformation were hampered. For example, the pigs could not enjoy the fodder transformed from grain at a higher price. If the pigs were fed with it, then men could not afford to enjoy the pork fed with it. Why was it that these resources were not used for other purposes? One of the reasons was that the ossified system of the state monopoly of purchase and marketing could not reflect the changes in the structure of the market needs through the regulation of the price parities and did not give the producers the correct idea. Practice has proved that the system of state monopoly is no longer suited to the requirements of the new period of commodity economy in rural areas. The primary cause of various kinds of inconsistencies lies precisely here.

The realization of the mechanism of trade fairs is different. The key is the flexibility of prices which can sensitively reflect the changes in demand and supply, thus playing an increasingly important and active role in the circulation of commodity agricultural products. However, the general scale of the trade fairs is not enormous, as they do not have the backing of state subsidies, and their organization is not yet mature. Consequently, the society cannot depend on them to comprehensively redress the imbalance of the market under the state monopoly of purchase and marketing.

In short, to the present, of the two paths, the main one is still the state monopoly of purchase and marketing, which has a weak function of regulating prices and has a higher degree of giving out wrong signals. A discrepancy still exists between the producers and the real needs of

the society. Under the situation where commodities are in short supply, some market contradictions are hidden and latent. With ending of the era in which supply dominates the market of agricultural products, the system of the state monopoly of purchase and marketing must change its course.

2. Expand the Utilization of Market Mechanism

In order to understand more profoundly the necessity of reforming the system of the state monopoly of purchase and marketing and the basic orientation of this reform, it may be of significance to adequately differentiate, from a theoretical point of view, between the general existence of the commodity currency category and the function of the market mechanisms. (See Fu Bu-lu-si [1715 1580 7627 2448]: "The Problem Concerning the Operation of the Socialist Economy" in "Selected Articles on the Problem of Socialist Economic Patterns," 1983 edition, the People's Publishing House, pp 195-204)

The system of the state monopoly of purchase and marketing does not negate the existence of commodity and currency. In this regard, prices are fixed for all agricultural products, and these prices are to be associated with deals for agricultural products (that is, currency flows from the hands of consumers to the hands of suppliers), and prices are not for the purpose of calculations alone. In this sense, it may be said that under the system of the state monopoly of purchase and marketing, the animate labor which is put into the production of agricultural products is also regulated by prices.

However, two characteristics are not to be neglected: First, the price signal of the system of the state monopoly of purchase and marketing is to be formulated in a centralized way by the state and controlled by the state; consequently, it cannot possibly be very sensitive. Second, under this system, neither the producers nor the consumers have adequate choice, because there non-price signals have influence;--For example, quotas for the producers to deliver their products to the state, ration tickets to limit the purchase quantity by the consumers, and so on. That is, not only is the price signal unable to accurately reflect the needs of the society, but the decisions of the producers and the consumers are by no means influenced by prices alone. Hence, under the system of the state monopoly of purchase and marketing, the form of existence of the commodity currency can participate in the distribution of resources only in a very limited way, and is only a non-fundamental and passive tool. In fact, the method of distributing resources through plans has the nature of direct orders. Naturally, this situation is different from market mechanism.

The so-called market mechanisms mean that the form of commodity currency is regarded as a fundamental and active tool in distributing resources. This includes the following four characteristics: 1) the proportion of the resources used by various kinds of products in production is determined by the structure of the society which represents the buying needs; 2) the producers have full freedom of choice and can react independently

to the differences in returns resulting from different kinds of products; 3) the consumers enjoy full freedom of choice, and their purchases are only limited by the level of their income in terms of currency as well as by their preferences; and 4) the contradiction between demand and supply in society is reflected in the changes in prices and is regulated by affecting the economic activities of the producers and the consumers. All these characteristics are expressed in the process of the repetitive reproduction and reconsumption of society, and provide feedback about the results of the previous production and circulation for the arrangement of the economic resources before the next cycle of production. If we want to discuss the problem of market mechanisms still more intensely, we will encounter great theoretical difficulties. However, the present description is enough to help us distinguish between the general existence of the commodity currency and the function of market mechanisms.

Which of the two is better? Perhaps it is inappropriate to make a superficial judgment. The system of state monopoly is suited to a comparatively definite economic environment. This is the case when the daily necessities are in short supply as commodities. Grain is an example. When the supply of grain to maintain one's life is insufficient, there is little flexibility in terms of its needs, and changes in income and price do not lead to drastic changes regarding the need for grain. In addition, needs have a singular goal; the basic need is to seek quantity, that is, to seek the physiological satisfaction of caloric requirements. Under these circumstances, the total quantity and structure of resources used in producing grain are definite, and the society as a whole does not have a wise choice. However, when social consumption exceeds the stage of maintaining basic food and clothing needs, the indefinite nature in terms of the demand and supply of grain is greatly strengthened. Recently, some overseas scholars have put forward the notion of "secondary grain." The so-called "secondary grain" means the grain which transcends the mere requirement of grain for existence (that is, primary grain) and which is the portion of grain used to improve the composition of food and to enhance the nutrition level. (See the signed article by this writer: "The Challenge of 'Secondary Grain'" in JINGJI RIBAO, 27 October 1984) The concrete expression of the change from "primary grain" to "secondary grain" is the rapid increase of the proportion of fine grain in the general supply of grain for daily consumption and the greatly increased quantity of meat, milk, poultry, and eggs which have been transformed from grain. Once this stage of consumption is reached, social needs for food become very indefinite. First, the elasticity of needs suddenly becomes great; second, the desire for diversified consumption is increasingly manifested on the market; and third, because the risk in breeding animals is generally greater than the risk in growing plants, the time needed in producing good quality food products is longer, and the technological and economic requirements in every link are more strict, consequently, the fluctuation in terms of supply increases. In this case, the contradiction between demand and supply becomes acute, and the effective arrangement of resources becomes a very difficult problem. At this stage, it becomes very obvious that the system of the state monopoly of purchase and marketing is not

suited to the changes on the market. The economic development objectively requires the expansion of the scope of utilizing market mechanisms, because past experience has proved time and again that market mechanisms can very efficiently deal with an environment characterized by a high degree of uncertainty.

Even an observation judgment can prove that a change is undoubtedly taking place concerning the mode of consumption for the people of our country. Food products as commodities are an example. In 1983, the average daily caloric consumption per person in our country was 2,877.4 calories, 82.8 grams of protein, and 47.2 grams of fat. It may be said that the problem of food has been basically solved. (This is an average figure only; it should never be forgotten that there are still a number of poor regions and rural areas in which the problem of food and clothing has not yet been solved.) The question of eating well is being universally raised. The decisive factor which facilitates this change is the large-scale development of commodity production in rural areas. It is precisely because of the full development of the lower stage of the mode of commodity currency as the system of the state monopoly of purchase and marketing that the new historical task of radically reforming the system of the state monopoly of purchase and marketing has been put forward. In short, the mode of our rural commodity economy is going through a process of self-renewal and self-renunciation. Expanding the role of the regulation of market mechanisms is the new requirement put forward by the system of state monopoly in a time of full development.

The economic reform in rural areas has also made certain requisite preparations for satisfying this new requirement.

First is the preparation of materials. The fundamental agricultural products, such as grain, cotton, ramie, tea, and wool, have successively facilitated the formation of the buyers' market, and a considerable amount of these materials have been stored in the warehouses. The comparatively sufficient storage of the necessities which have very little elasticity in terms of need will be beneficial to the handling of any possible risks that may be encountered during the reform.

Second, the preparation in terms of experience. The multi-channel operation of agricultural products has been practiced for several years, and new channels with stronger adaptability have been developed. The scope of state monopoly in regard to agricultural and sideline products has been greatly reduced. A certain number of large and medium cities and provinces and regions have initially carried out important reforms in the marketing of certain important agricultural and sideline products, and varied attempts have been made to reform the methods of purchase and subsidies, the formation of pricing system, and the system of marketing. This has helped in assessing the reactions of producers and consumers and in shattering the myth of the impossibility of reforming the system of the state monopoly of purchase and marketing. All these have accumulated experience for conducting reforms on a larger scale.

Finally, there has been preparation in terms of the system. This means primarily the system concerning the producers. The system of contract responsibility with payment linked to output has enabled our peasants to become independent commodity producers and operators through the links of responsibility. The "big pot" in the process of rural production has been thoroughly discarded. This causes the peasants to be unable to find certain places to shift the pressure in the market, so they have to change their own economic activities to accommodate themselves to the market and obtain economic results. This is the most important basis on which market regulation can play its role. Judging from the system of production of the peasants, this basis universally exists in the rural areas of our country.

What is more important is that with the initiation and deepening of the reform of the urban economic system, still greater economic energies will be released. In the near future, great changes will take place in regard to the mode of operation of the urban economy, the income level of the city residents, and consumption characteristics, which will vigorously affect the countryside. This cannot but greatly change the situation of the rural commodity market, more vigorously influence the reform of the purchase and marketing of agricultural products by means of expanding market regulation, and give impetus to and exert profound influence on this reform.

On the basis of the above analysis, it can be seen that under our current concrete conditions, the regulation of the new contradiction in the supply and demand of agricultural products by expanding market mechanisms is both the inherent need of the development of the urban and rural commodity economy and distinctly possible.

3. The Restriction of the Market and Participation by the State

Expand the utilization of market mechanisms indicates only a general trend. However, the concrete form and extent of the expansion is primarily a matter of practice. In order to promote the smooth progress of the reform, it is necessary to discuss theoretically, based on the situation in our country, certain basic restrictions in expanding the role of market mechanisms in regard to the purchase and marketing of agricultural products.

/Restriction in Terms of Structure/

The extent of utilizing market mechanisms is closely related to the situation of the structure of the national economy. For example, since the founding of the country, the proportion of agriculture in the national income structure has become smaller and smaller, falling from 68.4 percent in 1949 to 44.6 percent in 1982. In the same period, the proportion of agricultural population in the total population stayed at more than 80 percent. Under this structure, it was impossible for the 80 percent of the population with an income of 40 percent to effect exchange of equal value with the 20 percent of the population with an income of 60 percent. Because of the difference in structure, there was a great difference in

terms of labor productivity between the two large categories--industry and agriculture. Political economics tells us that the magnitude of value contained in a unit commodity is inversely proportional to labor productivity. Therefore, the magnitude of value of our agricultural products is, in effect, very high. If the prices of the agricultural products can embody such a high magnitude of value, the producers will be very happy, but the consumers will be unable to afford it; conversely, the consumers will be happy to accept the prices of the agricultural products, but the producers will sustain great losses. We can [word omitted] this contradiction, which is one level deeper than the contradiction between demand and supply on the market in the commodity economy, a structural obstacle in regard to the exchange of equal value. Before 1979, the system of a state monopoly of purchase and marketing basically resorted to mandatory prices in production to deal with this obstacle. As a result, the producers were not very active, the economic results of the arrangement of resources were very poor, but the supply of the minimum quantity of agricultural products in society was guaranteed. After 1979, purchase prices were raised but selling prices were the same, and the state used financial subsidies as the principal means to deal with this structural obstacle. The further expansion of market mechanisms in the coming days will still be restricted by the structural conditions of the practical situation.

/The Restriction in Terms of the Degree of Market Organization/

Effective market regulation needs very smooth circulation of various kinds of market information, a fully developed commercial network, sound commercial laws and regulations, different kinds of complementary monitoring and forecast systems, and a correspondingly developed social commercial consciousness. All these are the result of the intensification of the social division of labor. They are also greatly influenced by economic policies and ideology. For various historical reasons, the degree of growth of our market organization is rather low. At the same time, even if all the man-made obstacles were to be thoroughly removed, its development could not be accomplished very quickly. Here exists a meaningful chain of cause and effect: The degree of market organization will not be enhanced without the implementation of market regulation, while the degree of market organization obviously constitutes a kind of restriction on the implementation of market mechanisms. To be well versed in grasping the situation of their mutual impact in conformity with different conditions is very important for the smooth progress of the reform.

/The Restriction in Terms of the Quality of the Producers/

In the above, we have talked about the fact that market mechanisms resort to changing price signals to make the producers react actively. What restricts the response of the producers is the system and policies on the one hand, and the producers' quality of operations on the other. With the removal of the former restriction, the latter restriction becomes increasingly conspicuous. In particular, with the arrival of the stage

of mid-level consumption, demands for new types of commodities and labor services on the market become greater and greater. Thus, the quality of the producers is often of paramount significance in ways of suiting the market. Hence, it has also become something affecting the effectiveness of market regulation.

/The Restriction in Terms of the Conditions of Demand and Supply of the Related Commodities/

Common sense tells us that there are a very limited number of substitutes for the requisite commodities, but there is a high degree of flexibility in mutual substitution among the non-necessities. Therefore, when the proportion of non-necessities of agricultural products is increased, the number of commodities that can replace agricultural products or the number of commodities that can be replaced by agricultural products becomes greater. In this case, the situation of the supply and demand of the related products has a great impact on the market capacity of the agricultural products. For example-after the enhancement of the per capita currency income, the proportion of expenses for the consumption of food generally decreases. However, if development is too slow in regard to residential houses, high quality durable consumer foods and various service industries, the consumers may use this portion of purchasing power for food products, or vice versa. Under specific conditions, it may sharply disturb the normal situation of the food market. This also holds true for other commodity markets. Therefore, the expansion of the market mechanism for agricultural products is restricted by the trend of changes regarding the conditions of supply and demand of related commodities.

It cannot be denied that even a rather perfect market is not immune from a certain degree of blindness. Our agricultural products market is still very imperfect because of the existence and interweaving of various restrictions. It is on the above basis that a new task arises whereby the state must actively participate in the regulation of the market in the process of enlivening the agricultural products market.

The basic conditions for the state to participate in the regulation of the market are: It has an extremely high degree of organization, it possesses strong financial power, and it can legally utilize a series of economic and administrative measures. However, the participation by the state in regulating the market is entirely different from the state monopoly of purchase and marketing. The fundamental difference lies in the fact that all the activities of the former are based on the observance of the rules governing the movement of the market. The purpose of the state's use of various means of regulation and control is not to inhibit the active role of market mechanism in distributing resources, but to help give play to this role. It is not for the purpose of opposing the market, but it aims to make the market more perfect in face of various restrictions.

Purchase by means of contracts is an example. Purchase by means of contracts is different from mandatory purchase, because the producers have the freedom of choice. The producers use the market conditions as the criteria for assessing the feasibility of the contracts. Therefore,

the state has to fully understand the changes in the demand and supply situation of the market, and has to be good at fixing the purchase price in the contracts on the basis of a correct evaluation of market fluctuations. Only in this way can the producers be attracted to engage in production for this market.

This is also true of the system of protective prices. The supply of large quantities of agricultural products is often affected by natural factors, resulting in great fluctuations. When supply greatly exceeds demand, the market price is bound to fall sharply, resulting in "cheap grain harming the interests of the peasants." In this case, the normal supply of the next market cycle will be affected. In order to prevent an impact on the market by similar changes outside the market, the state can establish a protective line of prices, so that when the market price falls below this line, the state can effect purchases at protective prices, thus facilitating the flow of commodities and lowering commodity prices. Obviously, the level set for protective price is of paramount importance. If the price is too low, it will fail to play its role; if it is too high, it will pose as a false signal of social demand. The real criterion should be the market price under normal conditions. It is impossible to implement an effective system of protective prices without studying the market.

Price subsidies are another example. As long as structural obstacles exist, some financial subsidies toward the agricultural products have to be granted. However, there are many problems worth our attention in regard to the basis, amount, and concrete form of granting subsidies. Subsidies granted to different links (producers, operators, or consumers) will lead to changes in their decisions and actions in various aspects, thereby resulting in drastically different results for the demand and supply of the market. The aim of granting subsidies is to ensure the normal operation of the market even if structural obstacles exist. Undoubtedly, the formulation of correct principles on granting subsidies cannot be effected without grasping the conditions of the market activities.

To sum up, under the existing conditions of our country, expanding the use of market mechanisms means the gradual relaxation of control on the price of agricultural products in terms of purchase and marketing, and participation by the state in regulating the market. Of course, there are many concrete ways for the state to participate in the regulation of the market for agricultural products, and there does not exist a fixed pattern in this participation suitable to all times and situations. At the same time, it should be made clear that the participation by the state in regulating the market does not mean that the state has to cater to all the fluctuations regarding the demand and supply of agricultural products. The gradual increase of the scope of regulation by market mechanisms alone and the reform of the wage system of the staff and workers in cities and towns will increase the ways for our society to solve the contradictions in the demand and supply of agricultural products, thus allowing demand and supply a greater degree of vitality. As a matter of fact, a market free of any restrictions does not exist. No country,

no matter how large it is, has or possibly has "an invisible hand" to regulate the total demand and supply for agricultural products. How to work out the extent, degree and concrete methods for the state to participate in the regulation of the agricultural products market on the basis of the characteristics of the restrictions of our market is a key task for our country after the gradual relaxation of the control on the prices of agricultural products.

4. Comprehensively Reform the Industrial Structure in the Countryside

It is also necessary for us to briefly examine the vital link between the overall reform of the system of purchasing and marketing of agricultural products and the national economy as a whole.

Today, that our agriculture and rural areas constitute the basis of the entire national economy is not limited to the material sphere alone. Because of the development of the commodity economy in the countryside, the currency income of the peasants has become the most important pillar of the domestic market. It is estimated that the current purchasing power of the rural areas constitutes about one half of the total social purchasing power. Of the amount of growth in social commodity retail sales in the last 5 years, about two-thirds has come from the countryside. This fact is extraordinary, because the rise or fall in the currency income of the peasants of our country will directly affect the prosperity or recession of our domestic market from now on.

From this perspective, if the grain and cotton produced by the peasants are purchased by the state without restraint, the currency income of the peasants will no doubt continue to rise. However, as is examined in the above, this growth runs counter to the role of market mechanisms, which will sooner or later lead the rural economy and even the entire national economy into a blind alley. On the other hand, under the present situation of the supply of grain and cotton being in a state of surplus, balancing the demand and supply with market mechanisms will greatly reduce the currency income of the peasants derived from the sales of grain and cotton. From a macroscopic point of view, the correct handling of the relations between the balance of the demand and supply of agricultural products together with the income of the peasants and the domestic market is an economic problem of dual difficulty.

An ideal solution is to change the structure of the total income of the peasants: While the income from grain and cotton is being reduced, efforts should be made to increase the income derived from other industrial operations. For this purpose, it is of primary necessity to change the deployment of the employed population in rural areas and to reform the industrial structure of the rural areas.

We have mentioned in the previous analysis that the excessive proportion of our rural population has led to serious structural obstacles in the exchange of equal value in regard to agricultural products. In this connection, agricultural price subsidies can only provide a temporary

solution. A more radical solution would be the reduction of the employed population in the countryside and an increase in the employment rate of the rural population in non-agricultural industries in conformity with the development of the economy, so that a greater amount of non-agricultural national income can be created. Generally speaking, the more closely the proportion of the agricultural population in the total population approaches the proportion of the national agricultural income in the total national income, the smaller the structural obstacles will become. An American named H. Nicolls once said: "The long-standing problem of agriculture in the United States is not the 'surplus' cotton, wheat, or shaddock, but the 'surplus' farmers." When compared with the structural situation in China's rural areas, the problem of surplus agricultural products is essentially not that the products are too abundant, but that the agricultural population engaged in the production of agricultural products is too great. The concentration of a dense population on the farmland not only makes the scale of agricultural operation become too narrow, with the result that the cost of agriculture is extremely high, but also reduces the number of persons who consume the agricultural products as commodities and reduces the total purchasing power for agricultural products. In this sense, the reform of the rural industrial structure should be regarded not only as the situation which fits into the reform of the system of purchase and marketing of agricultural products, but also as a more radical strategic problem in the development of the commodity economy in rural areas and of the national economy as a whole.

The reform of the rural industrial structure involves a series of macroscopic and microscopic economic problems which need special discussion on other occasions. Here we wish to discuss only the relations between structural reform and market mechanisms.

Structural reform is the reorganization of resources on a larger scale. When various essential factors flow from one industrial department to another industrial department, inducement by signals is also needed. As the peasants go to work in non-agricultural industries in order to gain non-agricultural income, it is essential for them to understand the structure of social needs and its changes on a broader scale. The active role of price mechanism has a wide application in the structural reform. Thus, the expansion of market mechanisms becomes the common requirement of the reform of the system of purchase and marketing for agricultural products as well as the reform of the rural industrial structure. In the recent period, when the peasants have adequately reduced the investment of their economic means in the production of grain and cotton according to the signals of price changes, they have had to rely on the signals being correct to arrange the direction of flow of their remaining economic means.

The comparatively rapid growth of the national economy in recent years has provided a good situation for the reform of the rural industrial structure. At present, the potential of the secondary industry and the tertiary industry in absorbing investment from and providing employment to the peasants is very great. Therefore, from a logical point of view, it is

possible to accomplish the periodic target--to realize the general equilibrium of the demand and supply of agricultural products on the market and maintain the continued growth of the income of the peasants through changing the structure of their income. In view of the difficulty in the initial stage of the structural reform and the necessity of reducing the unavoidable economic conflicts in the process of the reform, it is also very necessary to implement an active financial and currency policy while expanding the utilization of the price mechanism.

Developing the socialist commodity economy in the countryside on a broader scale requires better mechanisms as well as a better structure. The reform of the system of purchase and marketing for agricultural products and the reform of the rural industrial structure constitute two most important factors in the development of our countryside within a certain period from now. Studying these two reforms and their relationship more intensely is an important topic for us.

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ECONOMIC MANAGEMENT

IMPORTANCE OF SMALL-SCALE ECONOMY DISCUSSED

Beijing JINGJI YU GUANLI YANJIU [RESEARCH ON ECONOMICS AND MANAGEMENT]
in Chinese No 6, 30 Nov 84 pp 23-26

[Article by Shen Liren [3088 4539 0086]: "We Must Pay Attention to the Small-Scale Economy"]

[Text] The so-called small-scale economy is a foreign phrase which means an economic unit on a small scale. It includes agriculture, commerce, transportation, the building industry and other industries, and is used increasingly to mean small and medium to small-sized enterprises in industry. What distinguishes a small enterprise is output, sales volume, fixed assets, number of workers and production capacity: a small enterprise can have either one or a few of these standards, and it varies among countries. We are undergoing adjustment and, even though there are discrepancies, overall we are not doing too bad.

Therefore, we are paying attention to the small-scale economy because it holds an important position in the national economy and plays an important role. Certainly, this does not mean that we can treat lightly or disregard large enterprises and large to medium-sized enterprises. Comparatively speaking, we have always paid more attention to the large-scale economy than to the small-scale economy. There is nothing illogical about this. However, it is one-sided to treat lightly or disregard the small-scale economy. For a long time we were single-mindedly striving for things on a large scale, from agriculture to commerce to other sectors, and industry was no exception. Experience has proven that we must walk with two legs, develop the large, medium and small simultaneously and integrate the large, medium and small.

I

The small-scale economy holds an important place in China's economy. With regard to industry, in 1982 there were 388,600 enterprise units of which 5,400, or 1.4 percent, were large to medium-sized enterprises and 383,200, or 98.6 percent were small-sized. Out of China's 557.745 billion yuan gross value of industrial output [CVIO], large to medium-sized enterprises accounted for 248.378 billion yuan, or

44.5 percent, and small enterprises accounted for 309.367 billion yuan, or 55.5 percent. ("China's Statistical Yearbook (1983), pp 220, 222. The following data are from the same source and need not be further noted). With regard to key industrial products, not only do small enterprises hold a predominant position with regard to light industry, such as food, textiles, tailoring, leather goods, paper, plastics, hardware and general merchandise, but they also hold a fairly significant position in heavy industry: for example, small enterprises account for 47 percent of small coal mines, 56 percent of nitrogenous fertilizer, 60 percent of cement and 22 percent of hydroelectricity. The percentages are the same for the number of workers and profits turned over to the state. If we considered the totals from small to medium-sized enterprises, the proportions would be even higher.

What is worth noting is that we have engaged in a great amount of capital construction and built a number of large to medium-sized enterprises without any outstanding changes in the organizational scale of enterprises. According to statistical data, the proportion of the GVIO of large to medium-sized enterprises compared to small enterprises decreased from 54.8 percent in 1970 to 51 percent in 1975 to 43.2 percent in 1980 (starting in 1978, the standards for distinguishing large to medium-sized enterprises were raised), and the proportion rose after 1980. This reveals that from the viewpoint of the course of development, the rate of development of small enterprises is not slow and on occasion is even faster than large to medium-sized enterprises.

It is also worth noting that it is not the small enterprises from less advanced regions that hold a major proportion, but rather it is the small enterprises from fairly developed regions. Moreover, the regions in which small enterprises comprise a larger proportion develop even more quickly. The ECONOMIC DAILY of 10 January 1984 reported on the situation of the development of small enterprises by Jiangsu Province. Since 1979, the output of Jiangsu's medium to small-sized industry increased by approximately 10 percent per year, and GVIO in 1982 totaled 50.32 billion yuan, of which large enterprises accounted for 11.8 percent, medium-sized enterprises accounted for 15 percent and small enterprises for 73.2 percent. In terms of the absolute number of small-sized enterprises in the nation's provinces, municipalities and autonomous regions, Jiangsu has the most, and Jiangsu is also among the highest in the country in terms of proportion of small enterprises to large and medium-sized enterprises. In the past, Jiangsu's GVIO was worse than Liaoning's and a little less than half of Shanghai's. In the past few years, Jiangsu has surpassed Liaoning, and in 1983, Jiangsu's GVIO was 80 percent of Shanghai's. Medium to small-sized enterprises are one of the leading reasons for this improvement. This does not even include industry run by production brigades and production teams which came into existence in the 1970's, whose output is expected to be over 5 billion yuan in 1983 and which are on a scale approaching that of Guizhou Province and Xinjiang Uygur Autonomous Region.

The importance of the small-scale economy has also been manifested in another respect in agriculture, commerce and other sectors. The joint production contract responsibility system, under the premise of giving play to the superiorities of the collective economy, basically uses the households or some other joint entity as an economic unit. They are on a smaller scale than past production teams with unified management, and they have promoted the vigorous development of rural productive forces. Commerce, the catering trade, the service industry and the repair industry have corrected their past tendencies of blind mergers and unified accounting, have resumed and developed the collective economy and the individual economy on a certain scale and have established vast networks that are also on a small scale. This is beneficial to both the smooth flow of goods and the standard of living of the people.

This all explains why the small-scale economy has vitality and especially conforms to China's basic national conditions of having many people, vast territory, a backward economy and uneven development. We must stress the construction of more and more large enterprises and give play to their roles as a backbone in industrial production and the national economy. At the same time, however, we must actively use our abundant labor resources and natural resources in a planned way and develop medium to small-sized enterprises in line with local conditions so they become a capable reserve of large enterprises. It is like this for industry as well as other sectors. This is a necessary task for building a socialist economy with Chinese characteristics.

Paying attention to the small-scale economy is not at all an expedient measure. We must have the whole world in view and look forward to the future: with the exception of a few large countries, small-scale economies are playing a spectacular role in both developing and advanced countries. In the past few years, relevant publications have introduced a large amount of data. The European Parliament called 1983 "the year of medium to small-sized enterprises and the handicraft industry in Europe." The United States has approximately 12 to 13 million small enterprises whose workers comprise over half the work force and whose goods and labor account for 40 percent of the nation's output. Japan's medium to small-sized enterprises account for 99.5 percent of all enterprises, the number of workers engaged in these enterprises comprise about 80 percent of the total, and these enterprises account for over half of all industrial output and approximately 20 percent of Japan's total exports. Hungary is in the process of breaking down certain large enterprises into small enterprises. Yugoslavia lists the small-scale economy as an important project for the development of the national economy. With the development of large socialized production and specialized cooperation, there is a place for enterprises on both a large and small scale. For example, in order to run large-scale steel, automobile, chemical fiber and chemical fertilizer plants, we need a group of corresponding small-scale steel rolling, spare parts,

printing and dying and compound fertilizer plants, to the point that the number of latter plants is greater than the former. S&T advancements and the expansion of social services have necessitated more and more small enterprises. It seems that the evolution of the scale of enterprises goes from small to large to small. Thus, summarizing or equating modernization to the large-scale economy and treating lightly or ignoring the small-scale economy does not conform to the trends and laws of economic and scientific development.

II

The small-scale economy plays an important role in China's national economy. We often say that "big has the advantage of being big and small has the advantage of being small." Some comrades do not see it this way and intentionally or unintentionally belittle the role of small enterprises and without differentiating, feel that the economic results of small enterprises are never as good as those of large enterprises. They always regard the "economies of scale" as the ideological basis. It is true that we must stress economies of scale, and it is neither the smaller the better nor the larger the better. However, the two should be specifically analyzed and should not be linked together. For most industries and products, there are different economic results for different scales based on the different resources, technology and economy. For example, areas with concentrated resources build large mines, and areas with dispersed resources build small mines; large factories are built to produce commodities in large batches and small factories are built to produce many varieties of commodities: they all have their own economic scale. The positive role of small enterprises comes from the fact that they do not have the numerous specific characteristics of large enterprises.

First, small enterprises are on a fairly small scale, their demands for equipment and technology are fairly small, it is easy for them to raise funds and set up work, they have a short period of construction, see quick results, and unit investment is also conserved. The advantages of setting up large enterprises are that the technology is advanced, which in the long run helps raise productivity, saves on the consumption of energy and raw and processed materials, lowers costs and increases profits. However, they require a large amount of investment, an extended period of construction and they can only be set up in a big way, otherwise, a slow remedy cannot cure the urgent situation. At the same time that we are building large coal mines and large cement plants, we must not let up in building even more small coal mines and small cement plants because they require only half the investment and half the period of construction of large enterprises.

Second, the flexible management of small enterprises, i.e., so-called "small boats turn around quickly," is able to suit the continued development of the range and scope of the market. In the readjustment

of the national economy during the past few years, heavy and light industry have had tasks that have changed the direction of service and product composition. During this process, large enterprises have had large difficulties and small enterprises have had relatively little difficulty. This is because the flexibility and adaptability of small enterprises are different. This is especially true of consumer goods of daily use: with the rapid increase in the purchasing power of society, the needs of consumers have increased with each passing day. The superiorities of small enterprises have been given even more play: they can quickly switch to producing marketable products, quickly increase varieties and raise quality. Large enterprises cannot compete with small enterprises in food, clothing and many other goods of daily use, and this is where the secret lies. Small enterprises do not shirk their responsibilities with regard to small goods that come under the category of market adjustment. Based on the situation in foreign countries, large enterprises are suited for the production of raw and processed materials, semifinished products, large varieties and single varieties while small enterprises are suited for the production of finished products, small products and complex varieties. This indicates that large, medium and small enterprises must coexist for a long time and cooperate with each other. This point is especially clear for the average retail commercial business and the catering and service trade.

Third, small enterprises have convenient management and simple organization, and it is not difficult to implement any of their systems. They can also raise efficiency and prevent waste. In all Western nations, the "large enterprise illness" that accompanies a concentration of capital is manifested in an overstaffed organization, ineffective guidance and lower efficiency. The way to cure this is simply to transform the large enterprise to a small enterprise and thereby simplify administrative levels and raise efficiency. We also feel that in economic reform, large enterprises have greater difficulty than small enterprises. Small enterprises already have the preliminary feasible experience, whether it is handling relations with the nation [government], implementing independent accounting, assuming responsibility for profits and losses and implementing collective contracts, individual contracts and leasing or whether it is handling relations within the enterprise, further implementing the principle of compensation according to labor and adopting all different types of rational wage systems. Our current level of cadre management is suited to a large number of small enterprises, and this then raises the cry in large enterprises of "talented personnel are hard to come by." This is especially true in collective enterprises: they usually mainly do this on a small scale, use independent management for everything, and this is demonstrated in their inherent vitality. They can also provide experience for large enterprises to draw on. During the current stage of the transformation from a sellers market to a buyers market, small enterprises are continuing to develop in adapting to competition, and because they hold a relative superiority with regard to management and administration, they sometimes can offset their weakness of having fairly backward production technology.

Fourth, small enterprises also have numerous special characteristics with regard to the matter of technological advancements, and they will not allow obliteration. In West Germany, the technical advancements usually come from small enterprises, and it is no accident that this is related to their level of specialization. China's small enterprises cover many different areas, and they need only to awaken their inherent vitality to be able to make a contribution with regard to technical innovations and technological transformations. When small chemical fertilizer plants were just starting out, most had big consumption and were of low quality. They were criticized in every way, and it was felt that they should close down. Yet after they exerted effort, they continually expanded, and not only were they successful in increasing agricultural output, but they gradually turned losses into profits throughout the industry; many of the technical and economic goals of the advanced units even reached the levels of the large chemical plants. When Shanghai promoted the use of microcomputers, it first received positive results from a group of small enterprises. The results of many large specialized institutes and scientific organizations are often coordinated with medium to small-sized enterprises that "do not put on airs," and intermediate experiments are carried out and production is started up.

Fifth, another outstanding role of small enterprises is the wide range of employment opportunities. They can attract labor forces from gradually expanding cities and from the countryside. Western nations cannot ignore the fact that medium to small-sized enterprises are an important factor. For example, from 1969 to 1976, newly built medium to small-sized enterprises in the United States created new positions for 6 million workers, while 1,000 of the largest industrial corporations decreased the number of positions or had no increase. In a country as large as China, most of the medium to small-sized industry, commerce and service industries that are developing by using labor-intensive products also have their own special significance. Cities that have solved the unemployment problem, such as Changzhou, Xiangfan and Weihai, to a great degree have depended on medium and small-sized enterprises, collective enterprises, commerce and service industries for the solution. Moreover, medium and small-sized enterprises are able to be run in both the city and in the countryside, especially the food, fodder and building materials industries. China's cooperative brigade industries (in small towns) already have more than 30 million members as workers, approximately 10 percent of the total rural work force, and in the suburbs and in the areas on the lower reaches of the Chang Jiang and Zhu Jiang, these workers constitute 20 to 30 percent of the work force. This is a great advantage in attracting the surplus labor that actually exists in the countryside, in changing from a unitary form of management to economic diversification in the countryside, in increasing agricultural accumulation and the income of peasants, in rationally deploying productive forces, in building up small cities and towns and in gradually reducing the differences between the city and the countryside.

In short, China is the same as foreign countries in developing small-scale economy: small-scale economy plays a role that cannot be ignored. To stress economic results, the points mentioned above, especially macroscopically, include ensuring the rate of economic growth. Even microscopically, besides the rate of labor productivity which is usually not as good as that of large enterprises, the rate of output and the profit margin of output of small enterprises are never lower than in large enterprises, and frequently they even outdo large enterprises. It should be pointed out that the products of many medium and small-sized enterprises are not listed in the command plan of the state, and they must do what they can to resolve this. Some spend 100 yuan to purchase 1 ton of coal but do not lose money and sometimes even turn a profit, and this is something that large enterprises cannot do. This explains that it is not fair to think that small enterprises have substandard economic results or to blame small enterprises too much because China's economic results are not outstanding at the present time.

III

In another respect, we must also acknowledge that small-scale economy has its drawbacks and problems. For example, in a number of units, the equipment is obsolete, the management is backward, technological strength is weak, and the malady of "small and dispersed" and "small and comprehensive" has not been solved for a long time. Thus, in the current readjustment, restructuring, consolidation and improvement of the national economy, we must bring many medium to small-sized enterprises into our field of vision, expend a great deal of effort helping them overcome their drawbacks and solving their problems, go in the direction of "small and specialized" and "small and refined" and give further play to the effective role of small enterprises.

First, we must carry out unified planning for large, medium and small-sized enterprises during economic readjustment and engage in a reshuffling and alliance in line with specialized cooperation. It was originally envisioned that a number of medium and small enterprises would close, suspend production, merge or retool. The outcome has been that except for a few enterprises that have actually shut down because of blind development, substandard quality, large consumption and huge losses, most small enterprises with problems have consciously turned things around and made a new beginning. In the past few years, the number of small enterprises has dropped by 20,000 to 30,000 while the number of small enterprises in different industries and regions has increased by the same amount. Currently, we must consider cities to be the key to our industry plan and economic zone plan and give overall consideration and all-around arrangement to every type of enterprise that is centered around backbone industries and namebrand products. We must organize medium to small-sized enterprises, change their scattered and chaotic state and form a specialized and coordinated system with a rational division of labor and that links up the parts to complete the whole.

By reorganizing and aligning, medium to small-sized enterprises can become members of specialized corporations or subsidiary factories of main factories or can establish relations with a large factory through a long-term contract and strengthen their planning. Not only does this help resolve "small and comprehensive," but it also helps redress "large and comprehensive" and can avoid redundant construction so as to save funds and raise results. In fact, there are two types of redundant construction: some large enterprises build small enterprises, and obviously this is redundant construction; and is it not also redundant construction when a small enterprise cannot think of a way to be used and so rebuilds and expands into a large to medium-sized enterprise?

Second, during technological transformations and the technological revolution, we must give medium to small-sized enterprises a definite position and have them coordinate and move synchronously with large enterprises. Large enterprises without a doubt are the key to technological transformations and the technological revolution, and they must play a leading role. However, in no way can we toss away medium to small-sized enterprises, because otherwise we would be limping along. Small enterprises have very serious technological transformation tasks: on one hand, they must differentiate between circumstances, integrate automated and mechanized labor with semimechanized and manual labor, and combine labor-intensive products with knowledge-intensive and technology-intensive products; on the other hand, they must stress the key points, comprehensively start work, fully utilize their different characteristics and inherent vitality, carry out small reforms and large reforms according to specific conditions, spend little money and yield quick results. The applications of S&T results are not spread very quickly, but once these results are integrated with medium to small-sized enterprises, they open up vast fields of interest. Medium to small-sized enterprises also have great potential for and many ways to use imported funds and technology and they already have outstanding accomplishments. Faced with this new technological revolution, medium and small-sized enterprises all have ample scope for their abilities, and they are sure to create new marvels that are difficult to anticipate at the present time. If we transplant the "improved, top-notch and new" technology of large enterprises into medium to small-sized enterprises and if we give the new technical ideas of the medium to small-sized enterprises to large enterprises to carry forward, both sides will learn from the others' strong points to offset their own weaknesses and will help each other become successful. If all small enterprises gradually advance toward "small and specialized," they will have a considerable effect on changing the entire face of China's national economy.

Third, we must pay even more attention to developing small enterprises in order to develop less advanced regions. China's economic development is extremely uneven, and adjusting the distribution of productive forces

is extremely significant. With the advancements in modernized construction, developing the abundant resources of China's northwest and southwest will gradually become an important item on our agenda. Thus, besides arranging key construction projects in a planned way, actively developing small enterprises is even more of a feasible and important step for these regions. Some of the different regions that are starting to build a few small enterprises in line with local conditions can realize this goal through economic and technical cooperation with advanced regions; this is extremely necessary for utilizing their native resources, training their technical and management forces, accumulating construction experience and construction funds and improving the standard of living of the people. In such a large country with such inconvenient transportation, this also helps overcome transportation difficulties and enhance economic results. We believe that these regions have more and more small enterprises, some of which will mature into large to medium-sized enterprises that are our future economic backbone.

Fourth, we must also have specific methods for encouraging and assisting the smooth development of small enterprises. Some Western nations have not established departments of industry but have organizations that specially manage medium to small-sized enterprises, study their problems and draw up the relevant policies and measures. Japan has established a department of medium to small-sized at below the provincial level for its trade industry, and each "du" [6757], "dao" [6670], prefecture and county also has a corresponding organization. We do not necessarily have to establish specialized organizations, but we must regard medium to small-sized enterprises as a special problem and must give them encouragement and support in economic policies and in other respects. Medium to small-sized enterprises have systems which are different from those of large enterprises, and most of them have a collective system of ownership; thus we must give them guidance by using even more economic policies and economic levers. At the same time, we must also give them strong support with regard to information, credit, technology and cadre training and draw up the necessary laws and decrees to cause them to guarantee and abide by policies. In the past few years, we have sent many economic and technical delegations abroad to investigate medium to small-sized enterprises, and upon their return they have written many articles and made many suggestions. However, they have engaged in very little investigative research and summarized little of the experiences of their own medium to small-sized enterprises. Small enterprises will experience an even quicker and healthier development if everyone pays attention to them and implements their work and policies, and these small enterprises will make an even greater contribution to modernization.

12437

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ECONOMIC MANAGEMENT

JOURNAL ON FIXED ASSET INVESTMENT SCALE

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[Article by Li Guoliang [2621 0948 2733] of the Financial Science Research Institute of the Ministry of Finance, and Xiao Jingcheng [5135 6855 1004] of the No 2 Investment Department in the head office of the Chinese People's Construction Bank: "On the Scale of Investment in Fixed Assets"]

[Text] The issue of the scale of investment has a bearing on the stable development of our national economy and is an important problem that we must conscientiously deal with in making socialist macroeconomic policy decisions.

I. Connotation and Denotation of Investment Scale

The amount and scope of investment are two major characteristics that reflect investment scale. Sometimes, we express investment scale respectively in terms of investment amounts and investment spheres (for example the sphere of capital construction). In brief, investment scale means the amount and scope of investment, but its denotation is often very broad. If we classify investment scale by its size, there are investments on a national scale, investments on a local and departmental scale, and investments on the scale of a single project. If we classify investment scale by its nature, there are, in the main, two categories: capital construction investment scale and renewal and transformation investment scale. If we classify investment scale in the light of the sources of funds, there are the scale of investment included in the state budget, the scale of investment funded by bank loans, the scale of investment funded by capital drawn in from abroad, and the scale of other investment. If we classify investment scale in terms of time and in light of whether or not the construction has begun, there are the annual investment scale and the general scale of the investment projects under construction and so on. We can further classify it according to departments, according to the size of the cities in which the investment projects are carried out and according to the nature of the projects. The connotation and denotation of the concept "investment scale" determines the complicated application of this concept. Therefore, we should concretely analyze and flexibly use this concept. If we talk about investment scale in very general terms, we are apt to confuse the different scope of application of different policies in our economic work. For

example, if we uphold "controlling investment scale" in very general terms, we are apt to control the scale of each and every investment project and this runs counter to the objective and actual demand. The correct method should be that in the light of the actual types and state of affairs related to the scale of fixed assets investment and in the light of the objective law and the state's principles and policies, we study and formulate concrete management policies on the scale of investment. We should control the scale of some investment, encourage people to enlarge the scale of other investment, and refrain from doing anything to affect the scale of still other investment, thus allowing its scale to be automatically rationalized by the regulation of market mechanisms. Only by doing so can we relatively satisfactorily administer the investment in fixed assets in an all-round and scientific manner. This will be conducive to the steady development of our economy, enable us to make full use of all resources, and give full play to the positive role of investment in promoting the development of our economy.

II. Our Views on Controlling the Scale of Investment in Fixed Assets

Now, in the understanding of many people, "controlling the scale of investment in fixed assets" means controlling the annual total amount of investment of all the sectors or of all the areas. These people do not understand that the key to controlling the scale of investment in fixed assets is to know the difference in different categories of investment scale and control each category in the light of its characteristics and that we should strictly control the general scale of the investment in the projects under construction, control the scale of the projects that will be newly started, and control and reduce the fields and scope of investment. As we fail to clearly understand the meaning of "controlling the scale of investment," it seems to us that we should exercise our control wherever there is investment and regard the increase in the amount of investment as something that we should control every year and every month. This makes us fail to see the principal contradiction in our management and is detrimental to the rational increase and readjustment of investment. In addition, we lack an accurate criteria of control and quantitative limit for "controlling the scale of investment," and we are not clear how big an amount of investment is suited to our national strength. As a result, all we can do is increase the investment budget of the previous year by a certain percentage and regard this as a way to control the investment scale in this year's plan. With this method, we can only control the amount of investment, we cannot control the number of investment projects and the scope of capital construction. Although we have a planned target for the amount of investment, as it is not practical our investment exceeds the target every year.

At present, people in our country's theoretical circles and practical work departments differ with one another in their views concerning the question of whether the investment scale has been too large since 1982. Most of the comrades hold that the investment scale in the past few years has been too large and this was shown in the fact that the amount of investment exceeded the targets of the state plan every year. They

advocate imposing strict control in the future. Other comrades put forward the view that the investment scale in the past few years has not been too large, because it did not put pressure on production or consumption and the investment was actually completed. Therefore, they hold that we should not control the annual scale of investment. The comrades in some basic units and local departments even demand complete decontrol. They ask: Why can we not invest, since we have the financial and material resources? There is something reasonable in all these views, but none of these views is entirely correct. From this we can see that it is imperative to discuss and study anew the concept of "controlling investment scale" and acquire an all-round understanding of the questions related to investment scale. Now we are going to give the following specific views:

First, we should treat the issue of investment scale with a view toward development. The scale of investment in fixed assets cannot be maintained unchanged. Society is developing and the production scale and material foundation of a society should be continuously expanded. Moreover, the national income created by society also increases year by year. In order to further increase the material wealth of our society, we must conduct accumulation and increase investment in fixed assets. In this sense, the scale of investment in our fixed assets always increases year by year. We should not judge by the absolute amount of investment whether the investment scale of a certain year is too large or too small. For example, we are not acting in a scientific manner if we think the national investment scale in 1982 was excessively large on the ground that the amount of investment in 1982 was more than 10 billion yuan larger than that in 1981. As a matter of fact, though we strictly controlled the scale of our investment in 1983, the amount of investment in fixed assets completed in the whole country in that year still exceeded the 1982 figure by over 10 billion yuan. We cannot help but say that this is an inevitable trend. Therefore, from the point of view of development, a certain increase in the annual total amount of investment is not a bad thing. All we need to prevent is a situation in which we would be unable to increase our investment, in which too big a percentage of our national income was used for investment and accumulation, or in particular, whereby we failed to satisfactorily use our investment funds, and we conducted our investment within an irrational structure and in too many fields and projects.

Second, at present, the fundamental issue related to the management of the investment in fixed assets is not the problem related to investment scale. In managing our investment, we should focus on readjusting the irrational investment structure and concentrate our energy on satisfactorily controlling the direction of using investment funds. During the past few years we made fairly great efforts to control the annual investment scale, but obtained little return on our investment. We will get the reverse of what we want if we do not stress controlling the number of projects and the amount of investment in each project. The reduction in the annual amount of investment means a lengthening of the construction period of our projects; and the control over the investment in capital construction leads to an increase in the scale of the investment for renewal. What is even more harmful is that many localities, departments

and enterprises spend a large amount of their investment funds to start new investment projects; conduct redundant construction; and invest in the projects that produce unmarketable products, that consume an excessive amount of energy, and that use the raw materials that are in short supply. This will only increase the number of problems in our capital construction. During the past few years, our country's economy has improved and become prosperous. This was the result of our efforts in strengthening our management over our fixed assets and mainly in readjusting some of the investment structure. From this we can see that the problem related to fixed asset investment is in the main a problem related to investment structure or investment direction. In future, we should switch the focus of our efforts to managing the use of the investment funds. Satisfactorily controlling and arranging the investment structure means that we should rationally select investment projects within the total amount of investment determined by the national general scale of construction (namely, the estimated total amount of investment of all the projects under construction). Concerning the questions of whether we should start new projects, extend old enterprises, or carry out technological transformation in old enterprises, and whether the project should be a large, medium-sized, or small; concerning the layout of our productive forces; and concerning the proportion between agriculture, and light and heavy industries and the proportion between investment in production and nonproduction projects, we should undertake studies and be selective. Only when our investment structure is rationally arranged can our investment yield effective output, can our economic structure be continuously balanced, can our investment promote production, and can production increase sources of funds, thereby pushing our entire national economy into a favorable cycle.

Third, we should have dual policies to control and encourage investment. Controlling and encouraging investment activities are two aspects of investment management and neither of these aspects can be neglected. A correct method for controlling investment does not require control over all investment with a "uniform" method, but means control that is specific and purposeful. For example, we should control the total scale of investment in projects under construction throughout the country, control the scale of capital construction, and control investment in projects that do not meet the demand for a proportionate development of our national economy and so on, in order to ensure the planned and proportionate development of our national economy. In encouraging investment we should also choose which projects to encourage. We should encourage investment in the weak links in our national economy, in the technological transformation in our existing enterprises, and in projects that can yield quick results with relatively small investment and with satisfactory social economic results. We should encourage all circles in our society to pool their funds to support the construction of the state's key projects. Thus we will effectively use the existing financial, material and labor resources of our society, spend the money that must be spent in developing production, and prevent funds from being locked up or wasted and materials and goods from being stockpiled or wasted. We suggest that in the future we clearly formulate specific policies to encourage and control investment and abolish the sweeping concept of "controlling the scale of investment in fixed assets."

Fourth, for investment that must be controlled, there should be a rational criteria and limit to control. Both in controlling the general scale of the investment in the projects under construction throughout the country, and in controlling the scale of investment of a specific project, we should have a rational criteria and quantitative limit for the control. Only by doing so can we control the scale of investment within the scope that meets the objective demand. Otherwise, we will not actually be able to control investment that we want to control and sometimes we will perhaps reduce our investment to a level that is too low and that is detrimental to the appropriate development of our production. In order to really control the scale of investment, we should choose new criteria for that control and fix the quantitative limit of the investment with a scientific calculation. For example, in controlling the general scale of investment of the projects under construction in the whole country, we should focus on controlling the total scale of investment in 5 years and the number of projects under construction. In the light of the demands and capability of state construction in a rational construction cycle, within 5 or more years, and according to appropriate ratios of accumulation and investment to our national income, we should calculate a general scale of investment in fixed assets for a certain 5-year period, stipulate the maximum number of large and medium-sized projects permitted for construction each year, forbid any addition of new projects in excess of the planned target, and start a new project when an old one is completed, thus ensuring the concentrated employment of investment funds.

III. Basic Principles to Be Followed in Investment Management

In order to put forth an investment policy that is suited to our reality, we must scientifically understand and make a distinction between various kinds of investment scale in the light of the reality in our country and adopt corresponding policies. According to the Marxist theory on reproduction, the scale of construction must be suited to the national strength. In the light of the current economic situation and development trend in our country, in formulating our investment policies, we should follow the following principles:

1. We should appropriately relax the control over the annual national investment scale with the precondition of strictly controlling the general scale of investment in projects under construction throughout the country.

The general scale of investment in projects under construction and the annual investment scale are two different concepts and their quantitative limits are also different. The general scale of investment in projects under construction throughout the country denotes the total sum of the amounts of construction investment needed by the projects upon which construction has begun throughout the period of construction until completion, commissioning, and yielding of economic results. In other words, this is equal to the total sum of the estimated investment for all projects under construction. It reflects the total construction scale and capital construction situation of the country within a certain construction cycle. At the same time, the annual national investment scale denotes

the total sum of the amounts for investment in the projects under construction in a specific year in order to realize the construction cycle. It is equal to the total sum of the amounts to be invested in all the construction projects in the specific year and is often much smaller than the total scale of investment in the projects under construction. Controlling the total scale of investment in the projects under construction means that we should strictly control the number of the projects that we begin to construct and control the total sum of the estimated investment in the projects under construction. We should both control the scope and the total sum of investment. The construction of an investment project in fixed assets is characterized by its long period of construction, large amount of investment, fixed nature of the project when it is finished, and its impact on the balance of social reproduction. In particular, a large or medium-sized construction or extension project or a major project of technological transformation takes from 2 to 3 to dozens of years and thus locks up funds without yielding any economic results. Therefore, we must conscientiously calculate the amounts of funds, materials, and goods the state has during the construction cycle that can be locked up in these investment projects, and thus decide the number of projects whose construction the state can afford, ensure the continuous progress of the construction of these projects, and ensure that they will be completed and put into operation according to or ahead of schedule in order to provide additional means of production and livelihood for society.

In carrying out construction we should look both forward and backward and focus on constructing and completing a number of projects. Our construction scale must be suited to our national strength, this requires us to control the general scale of the investment in the projects under construction throughout the country strictly. In other words, it requires us to decide in the light of a rational construction cycle the number of projects that our country can afford to build and complete over a relatively lengthy period and the total amount of investment needed for these projects. Once the planned target for the general scale of investment in the projects under construction is determined, we must impose strict control over it. In the process of implementing the plan, we can control the general scale of investment in the projects under construction by means of controlling the total construction scale of 5 years. Controlling the general scale of investment in the projects under construction is the most effective way of maintaining a rational proportion between accumulation and consumption and maintaining the planned and proportionate development of our national economy.

When we succeed in controlling the general scale of investment in the projects under construction throughout the country, we can appropriately relax our control over the annual national investment scale. This is because: First, under the condition of maintaining a general scale of investment in the projects under construction throughout the country, increasing the annual investment scale can speed up the progress of the projects under construction in the year and will thus shorten construction periods rather than increasing the number of projects and expanding the

scope of capital construction. A relatively small annual scale of investment on the contrary means a slowing down of the projects under construction in that year. Second, under the influence of the satisfactory or poor economic situation of each year, the annual investment scale necessarily should be expanded or reduced, therefore, relaxing control over the annual investment scale is precisely suited to this requirement. However, generally speaking, the annual investment scale over a number of years increases year by year. For a relatively long period, for example a period of 5 years, the fluctuation in the annual investment scale can be offset and thus ensure the fulfillment of the target for the general scale of investment in the projects under construction or the target for the general investment scale of 5 years. Third, the annual investment scale is restricted by the amount of surplus funds society has in a given year that can be used for investment and at the same time, by the target for the general scale of investment in projects already under construction. As long as in that given year the state gives priority to arranging the consumption funds needed for improving people's livelihood, fixes a rational rate of accumulation, and first ensures the supply of the floating and reserve funds needed by the existing production units, then the funds the whole society can invest in fixed assets can only be that part of the total funds left after deducting what is needed for people's consumption, for maintaining simple reproduction, and for social reserves. Thus it is hard to make investments at the expense of production and consumption. Fourth, under the conditions whereby the volume of currency issuance is normal, as the economic results of our country's production continue to rise, the surplus social funds available for investment in fixed assets will match the amount of materials and goods available. Even if the structure of the materials and goods is different from what we want for our investment, we can readjust it through our foreign trade and by adopting measures such as readjusting our investment structure and orientation in order to convert funds, materials, and goods into investment. Thus the expansion of our annual investment scale will not affect our economic stability. The prices of some of the materials and goods that are readjusted through the market may fluctuate due to the contradiction between supplies and demands in our market, but this fluctuation within a certain range will not affect the whole situation. In a sense, the rise in prices can restrict the realization of some investment, prevent the expansion of the scale of extra-planned investment, and will also stimulate people to increase the production of the materials and goods in short supply for our capital construction, thus easing the difference between supplies and demands. From this, we can see that conditionally loosening the control over our annual investment scale is conducive to fully using social funds and materials and goods, reducing stockpiled goods, giving play to the role of the law of value in regulating our economic construction, and speeding up our construction.

2. We should strictly control investment in industries that produce products in excessive supply and encourage increasing the amount of investment in industries that produce products in short supply.

When we have fixed the general scale of the investment in the projects under construction, the key is to select a rational investment orientation and to arrange the structure of every investment project satisfactorily. Generally speaking, we should strictly control the scale of investment in industries that produce products in excessive supply. Regarding products that are marketable, that are in short supply in our market, or that belong to the categories of goods that our country wants but cannot produce, in order to increase the capacity for producing these products, we generally need not restrict investment related to these products and we should even encourage investment related to some of these products. As the situation changes, products in excessive supply may become products in short supply or vice versa, therefore, it is necessary to make timely readjustments.

3. We should strictly control the scale of investment in projects that are newly started, loosen control over investment in extension and transformation projects, and encourage technological transformation in our existing enterprises.

Generally speaking, there is a greater amount of construction involved in a new project and it involves more acquisition of equipment. When a new project is completed, there will be problems related to the balance in the supplies of raw materials, power energy, and communications. Moreover, the construction period and the amounts of investment for a new project are much greater than those for an extension or transformation project. An excessively large number of new projects would not only lock up large amounts of funds and consume large amounts of building materials, but would also lengthen the field of our capital construction and reduce the resources for technological transformation in our existing enterprises. Meanwhile, extension and technological transformation projects in our existing enterprises need relatively less investment, can be completed in a relatively short period, and bring about quick results. In particular, at present, there are already hundreds of thousands of enterprises in our country. In quite a few of these enterprises, the equipment is old, the technology is backward, and the products are outdated. Therefore, encouraging people to invest a greater percentage of our limited amount of funds in projects of technological transformation to adopt new technology and raise economic results is conducive to speeding up the modernization of our existing industries.

4. We should selectively control industrial, particularly heavy industrial, investment projects, and relatively loosen control over investment in agriculture, residential housing construction, urban construction, science, culture, education, and tertiary industry.

For a long time, our country's agriculture, residential housing construction, urban construction, science, culture, education and tertiary industry have developed very slowly. We stressed production but neglected consumption and circulation and thus seriously hindered the improvement of our people's livelihood and the development of our production. Since the 3d plenary session of the 11th CPC Central Committee, we have grasped the

work to solve these problems, but because of the shortage of funds, we have not greatly changed this unsatisfactory situation. When they have money, many localities prefer to invest their money in industrial projects. Therefore, for a certain period of time, it is not only imperative but also possible to loosen our control over investment in the fixed assets in agriculture, residential housing, urban construction, science, education, and commercial and service trades. Projects in these areas need less investment than industrial projects, take less time to complete, and are apt to bring about results. Moreover, there is a certain automatic reduction function in this category of investment. When supply reaches the saturation point, the state and localities will not expand investment without limit to expand nonproductive surplus facilities. When an enterprise wants to make more investments in residential housing construction, it will be restricted by its limited resources and by the rise in the prices of building materials.

5. We should strictly control the number of large and medium-sized construction projects and appropriately loosen control over investment in small projects.

Large and medium-sized projects require large amounts of funds, take long periods of time to complete, and have only input and no output for relatively lengthy periods. If we start too many such projects, we will not only lock up large amounts of financial and material sources in semi-finished projects, but will also reduce the resources for some necessary economic construction projects. Therefore, we must strictly control and prudently arrange the number and investment scale of large and medium-sized projects. As long as we succeed in controlling the scale of our large and medium-sized construction projects, we will have basically controlled the general scale of investment in the projects under construction throughout the country. In loosening our control over investment in small projects, we should first satisfactorily formulate the plans for product development of various trades and strengthen the state's guidance plans. At present, we should focus on readjusting and rationalizing our price system and establish a set of price, taxation, and interest rate readjustment system. In doing so, we will be able to make the investment orientation of our small projects relatively rational. Loosening investment in our small projects is conducive to increasing the supplies of the commodities in urgent demand in our market, providing convenience for people's livelihood, and providing parts and components for large enterprises, and raising the efficiency of investment. It is also conducive to giving play to the initiative of our enterprises, stirring up competition, and strengthening economic management and administration. Even if some indiscriminate and redundant construction emerges, we can apply the law of value to curtail the projects that are not suited to social demands to shift or cancel their production. Though we will incur some expense in doing so, as the projects are small, it will not affect the whole situation. This will also force the groups, departments, and enterprises to be more committed indiscriminate and redundant construction to pay attention to market information, strengthen their work in making forecasts, and reduce the indiscriminate nature of their action.

6. We should strictly control the work of making estimates of investment in construction projects and flexibly arrange the expenditure of funds for annual construction. The relationship between the estimates of investment in construction projects and the annual funds allocated for construction of the projects is similar to that between the general scale of investment of the projects under construction throughout the country and the annual investment scale. The estimated calculation of the investment for a project is the presentation in money form of the total amount of work in the project. Once this calculation is made, the estimated amount will become the top limit for the spending of investment funds in this project. Therefore, by strictly controlling this calculation, we will control the total costs of the project and will also prevent the malpractice of blindly expanding the amount of work, spending money freely, and paying no attention to economic results. As for the funds allocated for the construction of a specific year, we can make flexible arrangements, allow the construction units to speed up the progress of their work, concentrate the expenditure of funds, and put some projects into operation ahead of schedule. We should put an end to the previous practice of leaving projects unfinished every year, forbidding people to spend funds ahead of schedule even if they have accelerated the progress of construction, and investing funds in the manner of sowing sesame seeds.

7. We should control the investment scale in newly initiated industrial projects on our big cities and old industrial cities and in the areas where there is a shortage in the supply of raw materials, energy, and communication facilities. We should develop economic construction of our medium-sized and small cities and should relatively loosen our control over the investment scale in our hinterlands, border areas, and areas which abound in natural resources. We should encourage our rural areas to develop township enterprises and encourage our peasants to make investments in order to develop commodity production.

In our big cities, the problem of dense population, the problem of water, electricity and communications facility shortages, and the problem of serious pollution of the environment are becoming more prominent day by day. We should strictly control the industrial projects to be initiated. The industrial investment scale of our big cities should be regulated by the practice of conducting technological transformation in our existing enterprises; of bringing the "three wastes" under control; of developing our high-grade, precision, and sophisticated products; and of developing our light and textile industries and catering trades. We should also control the industrial investment scale in our industrial cities and in the areas where there is a shortage of resources, raw materials, energy, and communication facilities. Relatively speaking, we may properly loosen control over the investment scale in our medium-sized and small cities, hinterlands, border areas, and minority nationality regions and in areas which abound with resources and which are provided with better development conditions. We should allow these areas to use their own financial and material resources to develop their regional economy and to improve the overall arrangement of their productive forces.

8. We should loosen control over the scale of investment in our special economic zones and encourage foreign businessmen, foreign governments, and international financial organizations to invest and to set up enterprises in our country and to provide us with loans on favorable terms.

Implementing the policy of opening up to the outside world and enlivening our domestic economy is a long-term policy. The rational use of foreign capital, such as properly borrowing foreign capital, absorbing foreign investment, and introducing advanced technical equipment, not only helps us make up the shortage of funds for our domestic construction, enlarge the scale of our construction and form a greater production capacity, but is also conducive to introducing from abroad advanced technology and advanced administrative and managerial experience and thus facilitate improving the technology and management of our domestic enterprises. Generally, we may decontrol the investment scale in our special economic zones.

The above-mentioned basic principles reflect the diversified nature of our management on the scale of investment in fixed assets, and are conducive to strengthening our investment management, to satisfactorily arranging our investment orientation and to exploring the macro control and micro enlivening of our country's investment management.

IV. We Ensure the Implementation of Our Policies on Investment Scale by Applying Economic Means

In the past, our country administered the scale of investment in fixed assets mainly by administrative measures. This is not enough. We must attach importance to using our economic means to readjust the scale of our investment and achieve an effective administration over the scale of investment. From now on, we should mainly adopt the following economic measures:

First, we should use the lever of taxation to readjust the scale of investment. Through taxation, the state levies taxes on the investment in capital construction not included in the state's planned investment. The state will levy taxes on the unplanned items of construction projects in order to restrict new construction; for the sake of encouraging the construction of the state's key energy and communications projects, the state restricts various localities, departments, and enterprises and prevents the malpractice of excessively enlarging the scale of investment in ordinary construction projects.

It must continue to collect funds for key construction energy and communications projects. The state levies higher product taxes on the industries that produce products in excessive supply and carries out the practice of levying low taxes or exempting taxes on goods that are in short supply and no goods that the state urges to develop in order to encourage investment in this respect. The state has implemented different tax policies in different areas in order to restrict or to encourage investment scale in different areas.

Second, we should apply our price lever to readjust investment scale. Along with the development of our country's commodity production, the influence of prices on our production and investment is getting bigger and bigger. In the past, the important reason why people strove to construct small oil refineries, small chemical fertilizer plants, polyester fiber plants, and bicycle factories and so forth and why investment was insufficient in coal and electric power industries, was just because prices were irrational. As a result, no one was willing to invest in the sectors which sold their products at low prices and earned little profits. To readjust the prices of various goods continuously would be conducive to restricting or to encouraging the scale of various investments.

Third, we should use different interest rates to readjust the scale of investment. After we carry out in an all-round manner the practice of providing loans for investment in fixed assets, the impact and role of loan interest rates on the scale and direction of investment will be greatly strengthened. The interest rates of loans must also be readjusted in accordance with the principle of readjusting the scale of investment. We charge high interest rates on the trades, sectors, and areas which should be restricted in their development and charge low interest rates on the trades, goods and areas in which we encourage people to invest.

Fourth, we should give play to the role of our bank credits on readjusting the scale of investment. While the decisionmaking power and the amount of private funds of our enterprises are growing, a large part of extra-budgeted funds should all be deposited in various banks. In so doing, in addition to the banks themselves enlarging their capacity to use deposits to provide investment loans, the investment activities of our enterprises will also be reflected in the business of our banks. As a result, our banks will shoulder the important tasks of distributing loans and of guiding the investment of our enterprises. Therefore, our various banks must first rationally and satisfactorily arrange their own scale of various investments in accordance with the demands of the state's investment policies and not be allowed to provide loans at a deficit. Various banks must positively absorb deposits, set up their trust business, act as agents to issue construction bonds and stocks, provide information for investment, and amass the dispersed funds in society to support the construction of the state's key projects. Our various banks will invest, in a planned manner, in the trades that the state wants to develop, and avoid as far as possible the blind expansion of the trades for which the investment scale should be controlled.

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ECONOMIC MANAGEMENT

HEILONGJIANG PROVINCE MAKES PROGRESS IN URBAN ECONOMY

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[Excerpts] Over the past year, our province has achieved marked development in conducting reforms among urban economic systems. The major tasks of urban reforms for 1985 are to further enliven enterprises, particularly large-and-medium-sized enterprises; to further enforce the open-door policy to both fraternal provinces and foreign countries; to develop lateral economic coordination; to utilize in a comprehensive way the economic lever to strengthen macroadjustment and macromanagement; and to do a good job in emphatically grasping the five tasks that will be mentioned in the following paragraph.

Through 1-year of practice beginning in 1984, our province has made a new breakthrough in conducting reforms among urban economic systems. A large number of large and medium-sized enterprises have been enlivened and small enterprises have benefited after enforcing the open-door policy. The province has created a new way to invigorate enterprises in order to make the economy prosper. It has achieved new development in conducting reforms among commodity circulating systems by curtailing the levels of commercial wholesale stations, opening more channels of circulation, and by reducing circulation links. After enforcing the system of putting counties under the city administration, the central role of urban areas has been brought into play and the new prevailing situation has taken shape in conducting reforms in a comprehensive way and in involving a whole range of reforms. The people have benefited practically in conducting reforms. However, new problems have also emerged in conducting reforms, chiefly such as lacking a serious attitude toward macromanagement and losing control of some aspects of the economic life by the interference of malpractices. To cope with these problems, we should resolutely block malpractices while fulfilling the tasks of conducting reforms this year, adopt a firm attitude toward the drive of conducting reforms, and should make a breakthrough in fulfilling the following five tasks:

1. On the basis of simplifying administrative procedures and delegating powers to lower levels in order to enliven large and medium-sized enterprises, we should concentrate our effort on successfully consolidating the companies of administrative nature.

2. On the basis of enforcing the open-door policy in urban areas and opening urban markets to outside places, we should concentrate our effort on successfully conducting reforms in commodity circulation and transportation.
3. On the basis of conducting reforms among price systems and straightening out economic relationships, we should concentrate our effort on successfully conducting reforms in the prices of hogs and vegetables.
4. On the basis of conducting reforms among [workers?] to further straighten out the relationship of distribution, we should concentrate our effort on successfully conducting reforms on wage scales in enterprises.
5. On the basis of bringing into play the central role of urban areas, we should concentrate our effort on successfully conducting reforms among urban economic systems.

From 24 to 27 April, the provincial commission in charge of conducting reforms among enterprises held a conference with the participation of directors from the prefectural and city offices in charge of conducting reforms among enterprises. At the conference, participants analyzed the prevailing provincial situation in conducting urban reforms and summed up or exchanged their experience gained in conducting reforms. As a result, they were clear on the emphasis of conducting reforms this year.

During the conference, Hou Jie, vice governor of the province, was present and delivered a speech. Comrade (Du Xianzhong), chairman of the provincial commission in charge of conducting reforms among enterprises and deputy secretary-general of the provincial people's government, also addressed the conference.

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ECONOMIC MANAGEMENT

ROLE OF LAW OF VALUE IN SPECIAL ECONOMIC ZONES

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[Article written in November 1984 by Tang Huozhao [0781 3499 3564] of the Economics Society of Shenzhen City: "The Role of the International Law of Value in Special Economic Zones"]

[Text] The "four stresses" of China's economy in special economic zones (stress on the use of foreign capital in construction funds, stress on joint ventures partly financed by foreign capital or businesses solely financed by foreign capital in the economic structure, stress on market regulation in economic activities, and stress on sales of products to foreign countries) enable the special economic zones to develop in the direction of internationalization in terms of both production and economy. This trend of development is certain to bring about an increasingly close relationship between the economy in special economic zones and the world economy. Therefore, it is of extremely important significance to conscientiously study the status and role of the international law of value in the economy of the special economic zones (SEZ's). This article attempts to make an initial study of this field in association with the reality of the Shenzhen Special Economic Zone.

I

The economies of the SEZ's develop in the direction of internationalization in terms of both production and economy, and their economic activities must stress market regulation. Then the international law of value is bound to exert influence on the economies of the SEZ's. This fact exists objectively no matter whether people acknowledge this or not. Thus, it is necessary to study ways to give play to the role of the law, so as to promote the development of the economies of the SEZ's and to enhance the competitiveness of the SEZ's products on the international market.

1. The influence and role of the international law of value on the introduction of foreign capital and technology to the SEZ's and on the economic structure of the SEZ's.

Whether or not the SEZ's can attract investors resulting in an inflow of a great amount of foreign capital and technology is not only influenced by the investment environment (economic conditions, political conditions, basic facilities, and so on), but is also dominated by the international law of value. Take for example the conditions in the Shenzhen Special Economic Zone concerning the import of foreign capital. In 1981, foreign businessmen invested in 578 projects, with a real investment of HK\$888,370,000; In 1982, there were 577 investment projects, with a real investment of HK\$580,990,000. The investment environment in 1982 was better than that in 1981, but the number of projects invested in and the amount of real investment in 1982 were less than those in 1981. This phenomenon, in this author's opinion, was due to the results of regulation by the international law of value. Within a country, the law of value plays the role of regulating production and circulation, activating the development of technology, and enhancing labor productivity, and it also plays the role of regulating the direction in which capital and technology flows on the international market. The basic motive force for investors to invest in SEZ's is to seek profits from their investment. The role of regulation of the international law of value on investors is realized through the individual efforts of the investors to seek profits from their investments. Therefore the international law of value plays its role of regulation through the investor's interest in profits. From this, the cause for the fall of real investment in 1982 can be explained relatively comprehensively. The economic recession on a world scale since 1980 led to a sharp fall in land prices in Hong Kong, and industrial land prices fell by 60 to 80 percent compared with the original prices; consequently, the industrial land prices in the SEZ, which were originally lower than those in Hong Kong by 30 percent, were higher than those in Hong Kong by over 30 percent. With the seeking of profits from investment at work, the flow of foreign capital into the zone was naturally affected.

The role of the international law of value in regulating the import of foreign capital is also reflected in the orientation of trade investment by foreign capital. Using the international law of value can regulate the profits from investment by investors, thereby regulating the economic structure of the SEZ. For example, from 1979 to 1982, the agreed amount of investment for the introduction of industrial projects amounted to HK\$928,190,000 which was 8 percent of the total amount, while in the three trades--real estate, tourism, and entertainment, and the commercial, catering, and service undertakings--the agreed amount of investment reached HK\$9,994,220,000, which amounted to 86.63 percent of the total investment. In 1983, the former rose to 39.3 percent of the total, while the latter fell to 24.3 percent. From the end of 1982, the land use fee for industrial items was lower than that of other items, reduction of or exemption from taxes may be granted for imported items of advanced technology, a certain proportion of products may be sold on the domestic market provided new technology and new equipment are introduced, and other preferential conditions we are provided, with the result that the introduction work in terms of industrial items, reached a new level. It is evident that the orientation of trade investment by foreign capital in the SEZ is controlled by the international law of value's regulatory

role. The practice in the Shenzhen Special Economic Zone has proved that the use of economic levers, such as land use fees, taxation, credits and loans, allowing domestic sales of a certain proportion of products, and bringing into full play the regulation role of the international law of value can influence the structure of the economy in the SEZ's and facilitate the realization of the SEZ plans and promote the balanced development of the SEZ economy.

2. The role of the international law of value in promoting production of the SEZ enterprises.

The law of value can play the role of saving labor hours because every enterprise has to realize the value of its products in line with the requisite social labor hours, and the enterprise has to strive to reduce the individual labor hours consumed in producing its products so that it can obtain more income or profit. As for the commodities produced in the SEZ's as individual labor on the international market, the value as individual labor can be evaluated in terms of the requisite world labor hours in the course of the exchange of international commodities. Obviously, the individual labor of an enterprise with high labor productivity will have greater value, and its commodities will therefore enjoy a greater degree of competitiveness. The development and change of the Guangming overseas Chinese livestock farm is precisely a practical example illustrating the role of the international law of value. From its establishment in 1958 to 1980, this farm sustained consecutive annual losses because its milk had difficulties entering the Hong Kong market, due to its backward technology, its low labor productivity, and its greater than the world average individual labor hours needed to produce the commodities. After the establishment of the SEZ, a good species of milk cows were introduced and advanced facilities and equipment were imported, including "herring-bone automatic milking machines" which met international standards and automatic fresh milk processing equipment which included the whole process from pasteurization, to bottling in a hermetically sealed system. Over 4,000 bottles (packets) of milk product were produced per hour, and the quality--the degree of freshness--was up to the level and requirements of international standards. In 1983, the fresh milk produced by this farm constituted more than 70 percent of the total on the Hong Kong market. Thus, the farm was able to turn losses into profits and acquired HK\$37,390,000 in foreign exchange in a period of 3 years.

The comparatively high profits obtained by this farm were mainly derived from the difference between the individual labor of the commodity and the requisite world labor, that is, the difference between the national value and the international value. The enlightenment provided by the Guangming Overseas Chinese Livestock Farm is: SEZ enterprises must effect the transition from labor intensive operations to technology intensive and knowledge intensive operations, must produce high value-added commodities in place of primary products or low value-added products, and must produce high quality products in place of inferior quality products.

3. The regulatory role of the international law of value in the field of circulation in regard to the SEZ enterprises.

Why is it that the products of certain enterprises find it hard to enter the international market, or they have to be sold at prices lower than those on the international market, or they have to be "sold on the domestic market instead of being sold overseas?" This is because the state of anarchism in the supply and demand on the international market makes the individual labor of the enterprises unable to reach international value. We know that the labor forming the international value is the requisite world labor hours. This requisite world labor hours means the average figure of the requisite social labor hour of various countries in the world. If the quantity of a certain commodity exceeds the quantity needed by the international market, part of the social labor hours will not be acknowledged, thereby being unable to be turned into international value. This is the reason for the abnormal phenomenon that for some enterprises, their individual labor increases but the international value decreases, and the export of their products increases but the profit in terms of foreign currency decreases. It can be seen from the above that the international law of value can regulate and determine the distribution of the requisite labor hours in the SEZ.

The quality of the use value, which serves as the material undertaker of value, will affect the value of commodities. Marx said: "The value of every commodity is determined by the labor hours needed by that commodity which provides the standard quality." (Marx: "Das Kapital," Vol I, p 196; the 1975 edition published by the People's Publishing House) Commodities without use value will have no value at all; commodities that exceed the quality of international standards will have a greater use value in comparison with the same category of commodities, hence a greater international value. For example, "Jia-le" brand mattress has a 30-percent share of the Hong Kong market for this kind of commodity, but it belongs to the category of superior quality because its quality meets international standards and enjoys a high use value. Here, the enhancement of labor productivity brought about by new technology and new processes has a dual meaning: On the one hand, it increases the quantity of commodities produced in a unit of time, reduces the individual labor of the unit commodity, and increase the difference between the individual value and the international value, thus increasing profits; on the other hand, the improvement of the quality of commodities increases the use value of the commodities, and consequently increases the international value enjoyed by the unit product.

Under the conditions of the development of modern science and technology and existing keen competition, the impact of the use value of commodities on the international value is tremendous. The successful development of a new product can drive old products of that category out of the market; the emergence of a multipurpose product will make the original single-purpose product hard to sell or be sold at a reduced price; and the cost of producing a product with new technology is much lower than that of producing the same product with backward technology, and the former is able to earn additional profits, but the latter will lose value which

is hard to estimate. Furthermore, the impact of the relationship between supply and demand on the value of commodities is especially conspicuous on the international market with a state of anarchism. It is evident that in understanding and using the international law of value, grasping and acquiring the information of the international market (including new technology, new products, and market needs) is of paramount importance to the commodity production and commodity exchange of the SEZ enterprises.

4. The role of the international law of value in regulating the production of the SEZ enterprises is being performed through direct regulation before the event and indirect regulation after the event.

On the whole, the economies of the SEZ's, which are developing according to the needs of the building of the socialist modernization, are different from the economies of the capitalist countries, which are entirely dominated by the law of value freely and blindly. To a certain degree or extent, it can consciously use the international law of value to promote the development of the SEZ economies, so as to maintain a balanced and coordinated economic development. This is because the strategic problems of the SEZ's, such as the macroeconomy and development plans, are formulated in line with the state's economic development needs and are reported to the state for examination and approval. For example, all the items involving the investment of over 100 million yuan must be reported to the State Council for examination and approval; light industrial items involving over 30 million yuan and heavy industrial items involving over 50 million yuan must be reported to the provincial authorities for examination and to the State Planning Commission for examination and approval; and items involving the balance of the country must be incorporated in the state plan; all items involving the balance of the province must be incorporated in the provincial plan; and all items involving the balance of the SEZ must be arranged in a unified way by the SEZ government. In addition, the use of a series of economic levers in the SEZ's can also make the regulatory role of the international law of value develop along the direction of meeting the requirements of the SEZ's and serving the economic construction of the SEZ's. That is to say, the SEZ's "capitalism whose scope of activities we can restrain and determine" (Lenin: "Political Report at the Central Committee of the Communist Party of Russia (Bolshevik), delivered on 27 March 1922 at the 11th Congress of the Communist Party of Russia (Bolshevik)" in "Selected Works of Lenin" Vol 4, p 627) makes it possible for the SEZ's to directly calculate and plan the social labor hours as a whole before the event, to directly evaluate the social needs, and to carry out direct distribution of the social labor hours in accordance with the result of calculations. Through direct regulation on the production of the SEZ before the event, the SEZ government can make the whole economic mechanism operate harmoniously.

The commodity producers and operators from various places of the world (operating enterprises involving foreigners) come to the SEZ's to make investments for their own interests, and the profits derived from the investments determine the volume and orientation of the investments. As

private owners of the means of production (aside from the land to which no ownership rights are applied, whole ownership is enjoyed by enterprises wholly financed by foreign capital and a partial ownership is enjoyed in joint ventures), they can determine the enterprises' production and operations. Even though studies are carried out and social needs are estimated by the foreign investors who come to the SEZ's for investment, production, and operations, "the social needs are forever an unknown factor, and this is true of the quality, type, and quantity of all the goods which are needed by the society." (Engels: "Marx and Rodbertus" in "Complete Works of Marx and Engels" Vol 2, p 214) Only after the commodities are produced and market exchange is conducted, can they know whether their individual labor consumed in producing the commodities is lower than the average of the world's social labor and whether their commodities can meet the needs of the international market. They cannot directly calculate, it is impossible for them to calculate the needs of the international market, and all they can do is to indirectly calculate the needs through the fluctuations of prices on the international market. Therefore, in the SEZ's, the international law of value carries out indirect regulation after the event on the production of the enterprises.

Although the enterprises owned by the whole people in the SEZ's are different from the solely foreign capital financed enterprises and joint ventures in terms of the nature of ownership, still they have to be regulated by the international law of value and be mainly regulated by the international law of value after the event, because they are "outward-oriented" enterprises with their products intended for sales on the international market. Although the production of the enterprises owned by the whole people in the SEZ's may be and in fact is directly calculated and regulated before the event, there still exist limitations. This is not only because of the fact that these enterprises are not in a position to accurately calculate the requisite labor hours of the world's society, but can only calculate the material consumption and cost in producing their products, and it is impossible for them to accurately calculate the needs of the international market. Whether the individual labor hours

of the enterprises are lower than the requisite social labor hours, and whether the various kinds of commodities they produce can truly meet the needs of the international market have to be determined and acknowledged by the regulation of the market after the commodities have been turned out.

Through the feedback from the international market can the enterprises make clear the relationship of proportions between their own individual labor hours and the requisite social labor hours of the world, thereby adopting corresponding measures, such as improving technology and management or enhancing labor productivity, to save the social labor, and can they determine whether or not the international market needs their products and the quantity and quality needed by the international market.

II

How can we fully use the role of the international law of value to promote the development of the SEZ's economy? This author thinks it is necessary to solve the following problems:

First, since the international law of value plays the role of saving labor hours in the SEZ's and of distributing the social labor of the world according to the proportion of the needs of the international market, then it is necessary to establish, on the premise of taking into account the international law of value, new economic conditions compatible with the regulation activities, so that the international law of value can effectively and sensitively play the role of regulating the economic activities of the SEZ's, and the enterprises can organize and arrange their production in line with the requirements of the international law of value. This necessitates the reform of changing static regulation to dynamic regulation, of changing centralized decisionmaking to decentralized decisionmaking, of changing regulation by administrative means to regulation by economic means, of changing quantitative targets to targets in terms of value, of changing equilibrium of material targets to equilibrium of targets in terms of value, of changing the commercial mechanism handling only imports and exports to a multifunctional, multichannel, and interrelated mechanism, and the reform of changing indirect or limited international marketing to active and direct international marketing. The target of reform should be centered on the enhancement of the profits derived from enterprise investment and operations. The managers of enterprises must be responsible for the profits derived from enterprise investment and operations, and the staff and workers should be concerned about the enhancement of the profits derived from enterprise investment and operations.

Second, the regulatory role of the international law of value is conditioned by economic levers, and it is necessary for the SEZ's to use various kinds of economic levers to make use of and give play to the active role of the international law of value. The economic levers of the SEZ's, such as prices, tax rates, wages, land use fees, and the proportion of products for domestic sales, are the links that connect the interests of the investors and operations, and they are also important tools of the SEZ's in consciously making use of the role of regulation of the international law of value. The correct use of various kinds of economic levers can prevent the state of anarchism in production due to the blind regulation of the international law of value, and can motivate the investors and operators, out of considerations of seeking their own profits from their investments, to strive to save the individual labor time and regulate their production in conformity with the changes of the needs of the international market. For example, the use and regulation of the tax rates and the fees for land use can restrain some enterprises from developing blindly and can guide the enterprises to develop along the direction of the needs of the SEZ's. If there were no economic levers, or if the relationship of mutual promotion and mutual restraint could not be established between the economic levers, the international law of value would not play its role effectively, and would not be able to make the SEZ economy advance steadily forward along the direction of structural rationalization and balance.

Third, the popularization of the "competitive prices" which link SEZ prices to the international market prices facilitates the enterprises to make comparisons regarding profits and prices of their imported goods and exported goods, and thus enables them to make the optimum choice. The SEZ enterprises, including those owned by the whole people, practice a policy of "competitive prices" linked to international market prices, and the cost of fuel, materials, and labor services of the enterprises is paid according to international market prices, the prices of their products are determined in line with international market prices, and the results of the investments and operations of the enterprises are evaluated in accordance with the value and profit norms of the international market. Thus, it is possible to directly reflect the proportional relationship between the individual labor hours of the products of the SEZ enterprises and the requisite social labor hours of the world, and to restrict the development of those enterprises failing to achieve technology intensive production and the development and export of those primary products with low international values. This will force the enterprises to operate on the basis of the SEZ conditions, adopt advanced technology in production, and continuously enhance labor productivity as well as the quality of their products, thereby enhancing the competitive power of their products on the international market.

Fourth, the role of blind regulation after the event of the international law of value on the production of the enterprises in the SEZ's may possibly lead to great fluctuations and destruction of social productive forces. This is because the international law of value, as a restrictive force, in opening up its road ahead, makes those enterprises which can adapt survive and drives out those enterprises that cannot adapt. This is independent of man's will or acknowledgment. It is necessary to give due consideration to these passive factors, and adopt adequate measures to avoid them as much as possible. The effective measure is to carry out effective and direct regulation before the event on social production while the international law of value carries out its blind regulation after the event. Direct regulation before the event can, to a certain degree and extent, ensure the economizing of the individual labor hours of the SEZ enterprises, and enables the SEZ government to distribute the social labor hours in accordance with the trend of development of the world economy (including the domestic needs). Under the system of market economy, the SEZ's should strengthen the macroscopic economic control while developing free competition, and bring into play the functions of the economic levers which are to be coupled with the means of administrative intervention. This is to say, what kind of factories should be set up and what scope of productivity should be envisaged are to be planned, controlled, and approved by the SEZ government. Of course, this "planned guidance" should conform to the needs of the international market as far as possible. This plan should be based on information about the international market, be compatible with the changes in the international market, and be in line with the capability of the enterprises in adapting to changes in the market. In this way, microeconomic flexibility can be combined with macroeconomic control, and the international law of value will be able to regulate the SEZ economy effectively and sensitively.

ECONOMIC MANAGEMENT

HENAN RADIO ON URBAN ECONOMIC RESTRUCTURING

HK250155 Zhengzhou Henan Provincial Service in Mandarin 1030 GMT 23 Apr 85

[Station commentary: "Unify Our Understanding, Concert Our Action, and Ensure That Reforms Advance Along a Correct Path"]

[Text] The provincial forum on reform of the urban economic structure has ended. We must seriously understand the spirit of the forum, further unify our understanding, concert our action, and develop in depth the reform of the urban economic structure in our province.

Making continuous efforts to properly carry out reform of the economic structure is a requirement for consolidating and developing the current excellent economic situation as well as a key to ensuring continuous, steady, and harmonious development in the national economy. We must firmly grasp reform, the central link, and never loosen it.

The central link in economic restructuring is invigorating the enterprises. In order to genuinely invigorate the enterprises, government and responsible departments at all levels must streamline administration resolutely and decentralize power properly. It is necessary to promptly vest enterprises with all the powers that should be vested in them. It is not permitted to vest power in units and departments other than enterprises, or to make enterprises a mere figurehead.

While streamlining administration and decentralizing power, it is necessary to strengthen the study and research of the new situations and new problems in economic life and to properly carry out coordination and regulation.

Supervisory and inspection departments at all levels must bring into full play their functional role as government organs and make joint efforts to resolutely manage those affairs which should be managed by them so as to create a favorable economic environment for the smooth progress of reforms.

Enterprises must bring into full play their initiative and enthusiasm, study macroeconomics, and correctly handle the relationship between the whole and the part. They should focus their work on tapping their internal

potentials, on strengthening business management, on upgrading the quality of their products, on reducing their cost, and on raising economic efficiency. They should avoid blindly pursuing targets and refrain from competing with each other in achieving higher growth rates. They should adopt a truth-seeking attitude and march forward steadily.

The reform of the urban economic structure is a great cause without parallel in history. Problems of one kind or another may appear in the course of the reform, but they are essentially different from new malpractices. The purpose of the reform is to develop the economy and benefit both the state and the people. Properly carrying out the reform will stimulate economic development and benefit people, and engaging in malpractices will inevitably harm the state's interest for the benefit of private interest and harm consumers' interest for the benefit of one's own interest. Therefore, it is necessary to correctly understand and handle the relationship between reforms and malpractices, to resolutely halt malpractices, to give active guidance in solving some problems in the reform, and to seriously sum up experiences. It is absolutely impermissible to lump together reforms and malpractices that disrupt the reforms.

Reforms are the core of all work. Principal party and government leaders at all levels must concentrate their efforts on grasping reforms, and party and government organs at all levels must play their functional role in guiding reforms and providing services, take part in reforms, guide reforms, serve reforms, and wholeheartedly support reforms. They must do practical work, steadily make solid progress, resolutely oppose formalism and flourishes, and lay stress on practical results.

This is the first year in which economic restructuring is being carried out with focus on reform of the urban economic structure. The first year's work is very important. We must have a clear understanding of the current situation, realize our tasks, unify our understanding, concert our action, grasp the current favorable opportunity, and make good preparations in all fields so as to ensure that reforms advance along a correct path.

CSO: 4006/576

ECONOMIC MANAGEMENT

SICHUAN LEADER SPEAKS ON ECONOMIC COORDINATION

HK270303 Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 27 Apr 85

[Text] Comrade Jiang Minkuan, deputy secretary of the provincial CPC committee and vice governor, made a speech yesterday at the economic coordination meeting of Sichuan, Guizhou, Yunnan, Guangxi, and Chongqing. He said that Sichuan will continue to adopt an approach of consultations on an equal basis, mutual accommodation and concession, and concern for the overall situation in order to promote continued development of economic coordination between Sichuan, Guizhou, Yunnan, Guangxi, and Chongqing, and, on this basis, to further promote joint efforts concerning the first and third lines.

After reviewing the achievements of Sichuan in economic coordination with Guizhou, Yunnan, Guangxi, and Chongqing over the past year, Comrade Jiang Minkuan said: Practice has proven that the economic coordination meetings which a leading central comrade advocated and helped to set up are extremely essential. They are an effective organizational form for developing horizontal ties between the three provinces, one region, and one city and opening up the southwest. These meetings have great vitality.

He said: We five parties have one point in common, that is, we are still rather poor. However, we have abundant resources and extensive markets. Our third-line enterprises are on a considerable scale. We can say that there are very great potentials. As far as Sichuan is concerned, its communications are inconvenient and its posts and telecommunications backward. These are outstanding problems here. They are also key problems that we five parties must solve through internal and external cooperation and joint efforts. Sichuan should take various steps to speed up the construction of railways, roads, waterways, civil aviation, and posts and telecommunications.

Comrade Jiang Minkuan said: Developing coal, steel, and electric power is also a focal point of cooperation of joint effort between the three provinces, one region, and one city. Sichuan should bring into full play its abundant mineral resources and its existing enterprise equipment capacity, get quick results from small investment, and work with the fraternal provinces and cities to speed up coal, steel, and electric power in the southwest.

Comrade Jiang Minkuan pointed out: Promoting cooperation between third-line and first-line areas constitutes an important development in this economic coordination meeting. The fixed assets of third-line enterprises in Sichuan account for about one-third of those of the enterprises in the whole province. We sincerely hope to develop cooperation with the coastal areas in making joint efforts in transformation, production, processing equipment, and exchange of information. We should apply various forms to undertake joint operations and work together to open up new roads for integrating defense and civilian industries and the first and third lines.

CSO: 4006/576

ECONOMIC MANAGEMENT

PAPER SUMMARIZES DISCUSSION ON MARKET REGULATION

HK221049 Beijing JINGJIXUE ZHOUBAO in Chinese 7 Apr 85 p 6

[Report by Qi Xiang [1796 4382]: "Summary of a Panel Discussion on the Problem of Market Regulation"]

[Text] A panel discussion on market regulation by the state and how state-run commerce should participate in such regulation under the new situation of structural reform was jointly held by the editorial offices of this journal and CAIMAU JINGJI on 20 March. Taking part in the discussion were leading comrades of the price center under the State Council, the commerce bureau under the State Planning Commission, the finance bureau under the State Economic Commission, the State Supplies Bureau, and the policy research center, and a number of personnel involved in teaching and research of the Institute of Finance, Commerce, and Commodities Economics under the Academy of Social Sciences of China, the Institute of Technical Economics under the State Council, the Economics Institute under the Ministry of Commerce, the Department of Trade and Economics of the China People's University, Beijing Institute of Commerce, and the editorial office of JINGJI YANJIU. A summary of the panel discussion follows:

A. Should It Be "Market Regulation" or "Regulating the Market"

One opinion holds that some proposals people usually come across, such as the state must conduct market regulation and state-run commerce must participate in market regulation have confused the concept of "market regulation," which has a definite implication. The "market regulation" referred to by many comrades in China specifically refers to spontaneous market regulation, and the spontaneous regulation of the economy based on demand and supply in the market and price fluctuation, that is, the spontaneous functioning of the law of value and the law of demand and supply; while the market regulation conducted by the state is conscious and planned regulation, namely, conscious planned regulation of demand and supply in the market and of prices based on the objective functioning of economic laws and their application. It is precisely such conscious and planned regulation that state-run commerce participates in. Therefore, the correct wording should be "regulating the market," and not "market regulation," that is, the state should consciously regulate the market in a planned way, while state-run commerce should take part in the activities of such regulation of the market.

Another view holds that saying that state-run commerce takes part in market regulation is all right. Economic regulation varies in form; it can be planned regulation, and it can be regulation with the participation of state-run commerce. With regard to market regulation, the participation of state-run commerce in market regulation is quite different. It refers to the participation of state-run commerce in market regulation by the state with the aim of regulating the market.

B. How Should We Understand Market Regulation?

One opinion holds that market regulation specifically refers to regulating a spontaneous market, and the spontaneous regulation of the economy based on the demand and supply in the market and price fluctuation, that is, the functions of the law of value and the law of demand and supply are brought into play spontaneously.

Another view holds that market regulation refers only to the application of the market mechanism, that all commodities will eventually find their way to the market. Therefore, market regulation is not limited to a spontaneous market. Mandatory plans, guidance plans, or no plans at all should all be based on the function of the law of value and its application, and they are inevitably involved in market regulation. It is not proper to define the activities of some traders as conscious regulation, and others as spontaneous regulation. The action of every trader is conscious, with peddlars being no exception; they all want to do business by applying the law of value. When the conscious application of the law on the part of the traders is in conformity with social interests, it is not spontaneous regulation, but conscious regulation; otherwise, it will be spontaneous regulation.

C. Why Is Market Regulation Proposed?

Some people hold that as socialist economy is planned commodity economy, the existence of a market will inevitably pose the question of regulating the market. Some people account for this by the extension of the market mechanism with the transformation of the market from a closed to an open type since the beginning of the structural reform. Others account for the existence of a spontaneous market by some blindness existing in commodity economy. Still others hold that 1) with structural reforms, the market now has a new pattern with multiple economic forms, and the proportion of independent marketing has expanded, while state-run commerce has failed to open a new situation over a considerably long period, and must participate in market regulation in order to change such a passive situation; 2) the planning structure has undergone some changes, as have the methods of purchasing and marketing, and the demand for the application of the law of value has grown more and more intense, while the state-run commerce market has been somewhat reduced; therefore, it is imperative for state-run commerce to take an active part in market competition and market regulations; 3) the functions of government and enterprises must be separated, in order that state-run commerce may

operate on its own; and 4) the structure of consumption has undergone great changes, and state-run commerce can meet such changes only by taking an active part in regulation.

D. Is Market Regulation a Characteristic of the Present Phase of Socialism?

Regarding this question, the answer is not according to some. In fact, market regulation has existed since ancient times. To protect the interests of the ruling class and to consolidate the economic base and the status of the ruling class, any state will bring into play the power of the superstructure to interfere with the market and economy, so as to maintain a normal economic order, and this includes the means of market regulation. For example, in the book "Guan Zi" which first appeared in the Warring States Period of China, a large portion was devoted to a discussion on regulating the market. And there was the discussion by Li Li of the state of Wei on regulating the market, and discussions concerning the same topic in the Han and Song Dynasties. Market regulation by the state and state commerce also existed before the PRC came into being. After the Russian Socialist October Revolution, Lenin proposed state regulation of the market, commodity circulation, and commerce in implementing the new economic policy in 1921. In the course of the transformation of privately owned enterprises after the victory of the Chinese people's democratic revolution, the state and state-run commerce also regulated the market. Only the nature, characteristics, and functions were fundamentally different in the market regulation by the state and state-run commerce under different ownership systems, under private ownership and public ownership. There were differences between the period of socialist transformation and that of socialist construction. With regard to the former, market regulation was aimed at transforming privately owned industry and commerce, while during the latter it was aimed at regulating demand and supply and prices.

E. Changes in Market Regulation Since the Founding of the PRC

Some people hold that the whole course of this can be divided into three stages: the first stage was the period of socialist transformation. In the course of utilization, restriction, and transformation of privately owned industry and commerce, special attention was attached to market regulation by the state and state-run commerce. An example is the struggle to crack down on profiteering and to stabilize prices in early 1950. Another is the state's interference in processing, placing orders for goods, monopoly in purchasing, and exclusive selling rights. Between 1956 and the 3d Plenary Session of the 11th CPC Central Committee, market regulation by the state and state-owned commerce was neglected. This was because state-owned commerce monopolized the market throughout the country, there were no competitors to speak of, and all it had to do was carry out internal allocation in the system; naturally, it did not involve any market regulation. That was the second stage. And the third stage began with the 3d Plenary Session of the 11th CPC Central Committee. Great changes have taken place in the situation since then, and that is why market regulation is again on the agenda and attention has been aroused regarding its importance.

F. The Scope, Categories, and Focus of Regulation

In reference to the scope of regulation, one opinion holds that regulation should involve the entire market, while another opinion holds that it should be aimed at the spontaneous market alone. With regard to the categories of regulation, two of them have been touched upon in the panel discussion: one is market regulation by the state, the other is that by state-run enterprises in the circulation field, such as state-run commercial enterprises, and national banks. Regarding focus, some people have mentioned that strict control should be gained over the wholesale business, while control over the retail business should be relaxed, and the focus of regulation should be the wholesale business.

G. What Is the Essence of Market Regulation by the State?

It has been touched upon in the discussion that market regulation by the state refers to the macroscopic market regulation by the state, based on changes in the demand and supply of the entire market and prices, by actively utilizing all kinds of regulation systems. The regulation systems of the state can be divided into two categories: one is the economic regulation system, and the other is the noneconomic regulation system. The economic regulation system is the major one, and includes the means of planning, economic levers, material means, and so on. Noneconomic regulation includes principles and policies, decrees, rewards and penalties, administration of and control over the market, and so on. With regard to regulation by economic means, the regulation by material means should not be neglected. The regulation in this aspect refers to the reserves of commodities, the volume of imports and exports, foreign currencies, gold, and credit loans. In reference to noneconomic means of regulation, the power of principles and policies should not be neglected. The policy on particular categories of commodities, whether a tightening or a relaxation, will involve important changes in the supply and demand in the market and the circulation of goods and materials. For example, the practice of the vegetable and aquatic products markets in Guangzhou and the exporting of Shanxi coal serve as marked illustrations.

H. How Should Market Regulation by State-owned Commerce be Understood?

As suggested in the discussion, market regulation by state-run commerce refers to its active handling of goods and materials in the market based on changes in the supply and demand in the market and prices. It expands the purchase of commodities which are in plentiful supply when necessary, while fixing a minimum protecting price to prevent a drastic drop in prices, which might eventually lead to the sabotaging of production; and it increases the supply of commodities in short supply while fixing a maximum protecting price to prevent a drastic rise in prices in order to reduce consumption. In the view of some people, the regulation by state-run commerce does not stop with handling goods and materials, the more important thing being engaging in purchase and transport for sales. Because the former is conducted only within the local market, while the latter is carried out between localities, only by means of purchase

and transport for sale will it be possible to readjust the demand and supply between localities, and to guarantee the supply of goods and materials to guarantee the volume of goods and materials at the place of marketing. According to another view, the regulation by state-owned commerce should persist not only in the national plan for commodity circulation, but also in the prices fixed in the national plan, and should actively change floating prices and prices in purchase and marketing through negotiation.

I. The Relationship Between State-owned Commerce Participating in Regulation and Regulation by the State

According to some people, market regulation by state-owned commerce is related to the economic regulation of market regulation by the state. Specifically, it is related to the volume of goods and materials (commodities) in the means of material regulation and the price lever among the economic levers. And others hold the view that the regulation by state-owned commerce can again be divided into two categories. One is based on the requirements for regulation in the national plan, which is used as an economic power which must be relied on by state regulation. The other is the regulation by state-owned commerce based consciously on changes in the market. In addition, regarding market regulation, some people hold that the regulation by state-owned commerce should be conducted under the guidance of the state. The state's requirements on regulation by state-owned commerce must be implemented. State-run commerce should promptly inform the state of the market situation, so that the state may adopt correct policies concerning it, and it should work in close harmony with the macroscopic market regulation by the state in order to ensure a correct orientation. Only then will it be possible for state-owned commerce to bring into play its function. In turn, in its macroscopic market regulation, the state should attach importance to, and rely on, the regulation by state-owned commerce and should strengthen its guidance and support of the regulation by state-owned commerce.

I. The Relationship Between Market Regulation by State-owned Commerce and Its Guiding Role and Participation in Competition

In the discussion, it was mentioned that state-owned commerce will genuinely bring into play its guiding role in the market only when it takes an active part in market regulation. State-run commerce must take up its due responsibility to the state and the people in stabilizing the market and prices, and the fulfillment of such responsibility is inseparable from its regulating the market. State-run commerce must participate in necessary competition in the market, and only through competition will it be able to consolidate and bring into play its guiding role. However, when state-run commerce participates in market competition, it should stick to principles, namely, it will consolidate its guiding role and work in harmony with the forces of all categories of the market, overcome the blindness of the market, practice mutual promotion, each other, and exert joint efforts to enliven the market and to make the economy thrive under the premise of conforming to the socialist orientation

and the requirements of the unified national plan. It should by no means be blind competition. Therefore, the competition of state-owned commerce must be linked to its regulation of the market, only then will it be in conformity with its guiding role in the market, and its action will really bring into play its guiding role in the market.

K. How Is State-owned Commerce to Participate in Regulating the Market?

It was suggested in the discussion that if state-run commerce is to participate in market regulation, the following four conditions are necessary: First, state-run commerce is primarily to have control over important goods and materials which have a direct bearing on the national economy and the people's livelihood and over commodities in short supply; second, the functions of government and enterprises should be appropriately separated, and necessary decisionmaking power should be given to state-run commercial enterprises; third, in reference to price control, while we should be strict with state-run commerce, we should appropriately enliven it, and this is also applicable to taxes, credit loans, and market management in order to ensure that state-run commerce will bring into play its advantages in market regulation and possess equal conditions for competing in the market; and fourth, state-run commercial enterprises must strengthen their vitality in structural reform, and establish a managerial and operational system which is full of vigor and vitality. To acquire the above-mentioned conditions, it is imperative to pay attention to solving the following questions: First, we must attach great attention to and strengthen state-run wholesale business. This is because wholesale business is the lifeline and center of commodity circulation. Only when the wholesale business is grasped will it be possible to have a good control of the supply of commodities. Only when a large stock of commodity reserves is under control will it be possible to easily take in and send out goods and materials at any time and make the market and prices stable. Second, it is necessary to set up a reserve system for important commodities. State-run commercial enterprises, in particular state-run wholesale businesses should not limit their function to that of in circulation channels, more important being playing the role of a reservoir. Storing just enough to deal with the needs of normal commodity circulation is not enough to regulate the market. In order to readjust demand and supply and to stabilize prices, it is imperative to have a good store of seasonal commodities, a store of commodities for readjustment, and even a store of commodities for special uses and reserve. Third, it is necessary to correctly handle the relationship between state-run commerce, finance, and the banks in reference to supplies of goods, funds, goods kept in stock, expenditure, responsibility for profit and losses, and so on. Most important is that financial departments must take on the economic responsibility of supporting state-run commerce in fulfilling the requirements of the state for market regulation. Subsidies should be given to state-run commerce for increased expenditure resulting from participating in regulation, and reimbursement should be allowed for the losses incurred. The banks should support state-run commerce with respect to funds, and a low interest rate should be granted to state-run commerce for reserving goods exceeding the needs

of normal circulation not out of overstocking. Fourth, state-run commerce should correctly handle the contradictions between participating in market regulation, strengthening business accounting, and improving its own economic results, and some contradictions resulting from unfolding competition. It should put right its thinking, overcome incorrect ideas such as the inability to act, bearing no responsibility for the market, and an attitude of indifference. The unhealthy tendencies in management should be overcome. Fifth, state-run commerce must suit itself to the new pattern and situation of the market and work hard to learn to do business in a civilized way. It should do a good job in the training of qualified people and the building of the information system, improve management and operation, and learn to participate in market regulation with flexibility on its own.

In conclusion, it was suggested in the discussion that the regulation by the state and the regulation by state-owned commerce should not only be correctly linked, but should work in harmony in various means, ways, and steps regarding market regulation, which should be formed into a complete set in order that they may not counteract each other, achieving half the result with twice the effort.

CSO: 4006/576

ECONOMIC MANAGEMENT

BRIEFS

SHAANXI DEVELOPS ECONOMIC COOPERATION--The province has developed a good situation in economic and technological cooperation. According to incomplete statistics, the province had over 900 project items on economic cooperation and over 2,800 project items on technological cooperation from 1983 to the end of 1984. In 1984, the province imported some 200 million yuan of capital, an increase of almost six times compared with 1983. [Summary] [Xian Shaanxi Provincial Service in Mandarin 1130 GMT 16 Apr 85]

URBAN ECONOMIC RESTRUCTURING--The provincial forum on reform of the urban economic structure ended in Zhengzhou yesterday afternoon. At the forum, all participants earnestly studied the government work report delivered by Premier Zhao Ziyang at the third session of the sixth NPC, and conveyed and implemented the spirit of the national forum on pilot projects in reform of the urban economic structure. All prefectures and cities and the counties carrying out pilot projects exchanged experiences in carrying out reforms. In the discussions, all the comrades emancipated their minds, freely aired their views, correctly analyzed and understood the excellent situation in the province's economic restructuring, unified their ideological understanding, strengthen their confidence and determination in carrying out reforms, further realized the main tasks for reforms in 1985, and initially drew a clear demarcation line between reforms and malpractices. Provincial Vice Governor Hu Jiyun delivered a speech at the conclusion of the forum. [Text] [Zhengzhou Henan Provincial Service in Mandarin 1030 GMT 23 Apr 85]

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FINANCE AND BANKING

JOURNAL ON CHINESE ROAD OF PRICE REFORM

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[Article by Hua Shang [5478 3932], He Jiacheng [0149 1367 2062], Gao Liang [7559 2733], and Zhang Shaojie [1728 1421 2638], students at the Postgraduate Institute of the Chinese Academy of Social Sciences; and Jiang Yue [5592 6460], a postgraduate in the Statistics Department of the Chinese People's University: "The Road of Price Reform With Chinese Characteristics"--first written in September 1984, finalized in November 1984]

[Text] Speeding up the pace of the reform of our entire economic system with the focus on urban reforms requires coordinated reforms in several spheres, of which the reform in our price structure and system is the key to straightening out our economy at present. This article tries to discover a road of price reform that is suited to China's national conditions and thus provide something to refer to for our readers.

I. The Problem Related to the Theoretical Pattern of Price Reform

The socialist economy is a planned commodity economy on the basis of public ownership. In a socialist economy, value continues to be the law that governs prices and exchange should be carried out according to value or its converted forms. Under a socialist system, the existence of value or its converted forms as the center of the movement of prices is the consequence of the process of the objective movement of commodity exchange and the consequence of the functions of a series of economic mechanisms. Socialist public ownership and planned economy enable people to acquire the conditions for understanding and mastering the laws so as to attain their economic aims. But it is hard to conceive that the prices that conform to the value or its converted forms can be fixed by a certain social center or arrived at by applying a certain mathematical model. If this were possible, there would be no need for commodities or even for prices to exist.

True, from the point of view of the forms, the change in prices in our market is caused by the change in the relations between supply and demand, but we cannot use these relations alone to explain the axis and trend of the movement of prices. Marx pointed out that under conditions where

supply and demand are consistent, exchange is carried out according to a value which is determined by the socially-necessary labor or according to that which regularly deviates from the value. The reason why this deviation is possible is because value, and therefore prices, are never relations between things, but reflect the social relations between commodity producers. As social economic relations are first shown as relations of interests, in a society which has departed from the status of natural commodity, the relative price relations between commodities should meet the demand for equalizing the interests of the principal economic entities of the society. Therefore, in order to probe into the axis of the movement of prices or the objective form of value, we should study the environment and mechanism for the balancing of the interest relations between the principal economic entities in the process of commodity production and exchange in a certain social economic mode. We should also study the general conditions for the operation of the above-mentioned mechanism and the process by which this mechanism decides the axis of prices. This was precisely Marx' method. When he disclosed the conversion from value to production prices, Marx pointed out: "All the difficulties are the outcome of the following fact: Commodities are not exchanged merely as commodities, but are exchanged as the products of capital. These investments demand that each should get a share of the total amount of the surplus value in proportion to the amount of capital, in other words, they demand that all capital investment of equal amount should get an equal share of the surplus value." (Footnote 1) (Marx: "Das Kapital," People's Publishing House, 1975 edition, Vol 3, page 196)

The total of the prices of the commodities produced by a certain amount of capital in a certain period of time and the unit price of the commodities should meet this requirement. This gives rise to the movement of capital from one sector to another and the competition between capital in different sectors and gives rise to production prices. Therefore, it is very clear that Marx' theory on production prices is a theory of value and that this theory should not be confused with ordinary theory on market prices. Therefore in order to counter our previous prolonged deviation and neglect of the role of the regulation of market mechanism, it is correct to point out that Marx' production prices are the consequence of the function of the economic mechanisms. However, I am afraid that it is open to question to understand Marx' theory on production prices in the following way: "In a market entirely dominated by competition, the relations between supply and demand determine prices, which dominate the movement of production factors and then dominate the change in production structure; and production prices are the general outcome of the balance between supply and demand and of price competition." (Footnote 2) (Lou Jiwei and Zhou Xiaochuan: "On the Orientation of Our Country's Reform in Its Price System and the Relevant Patterns and Methods of the Reform," JINGJI YANJIU, Issue No 4, 1984) This is because the balance between supply and demand is indeed a condition for the realization of production prices, but in essence, what gives rise to production prices is not the relations between supply and demand but the average profit rate. In actual practice, or as an experiment, we may apply the theory of relations between supply and demand determining prices without using the theory of value, and use this "method of trial and error" to

adjust or establish the price system. However, it is obviously inappropriate to link this theory at the same level with Marx' value-price theory. The most outstanding and most profound characteristic of Marx' economic theory lies in the fact that wherever traditional economics saw only the relations between things, Marx disclosed relations between people. In developing Marx's economic theory, we should never deviate from this clue.

The objectively existing and relatively independent economic interests of our socialist enterprises constitute the basis on which the socialist commodity economy itself is founded. Under the conditions where the socialist economic mechanism operates normally, the socialist price system is formed by the economic activities of the enterprises--the principal entities of production and exchange and the axis of price movement is the balance point of the interests of different sectors, trades, and enterprises. The state's interference in and control over prices will mainly be conducted by economic means. Under the precondition of respecting the independent interests of the economic entities, the state attains the macroeconomic goals of resource allocation, structure readjustment, and the balancing of supply and demand through grasping the activities of the enterprises and through readjusting the relations of their interests.

Of course, this does not mean a belittling of the role of prices in disposing production factors. To be strict, what marks the straightening out of the price system is the simultaneous attainment of the optimal disposition of resources and the balance in interest distribution. A rational price management system is characterized by its ability to make the price system develop in this direction on its own and the ability to regulate and correct itself when there is a deviation in price movement. In the old price management system, fixed price control is regarded as its nucleus and the enterprises, which are live cells of our economy, are regarded as inanimate tools. Inevitably, we have become tired of mending the old structure of the price system without being able to score any positive results. The interest relations that correspond to a certain mode of production determine pricing principles and mechanism, whose requirements our price management system should obey. The key aim of our economic structural reform is precisely to switch from the practice of mending the price system to the practice of making readjustment in the sphere of pricing mechanism. On the basis of respecting the law of value, we should apply and coordinate the economic levers such as taxation and interest rates and necessary administrative methods and thus affect and guide the final formation of the dynamic price system so as to achieve the goal of constantly optimizing the distribution of production factors.

We think that on the basis of a planned commodity economy, the principal part of our new price management system should be elastic planned prices. We must change the long-standing concept that confuses planned prices with fixed prices and find a new form that can flexibly reflect the change in the amount of value and in the relations between supply and demand in our market. To be more concrete, our planned price should consist of:

- 1) Floating prices which can also be called price fluctuation within the

planned range; 2) the price quoted by the economic organizations that the state price department assigns or entrust it to quote; and 3) unified planned price, of which there are two kinds. First, the national unified price, which is for a small number of products; and second, local unified price which is determined by various levels of price departments. These kinds of planned prices are relatively stable, but they are not fixed for a long time. This price management system will regard the guidance floating prices and guidance prices of the plans as its core and regard fixed and free prices as supplements.

To sum up, it is difficult for a rational price system to take shape when the old centralized price management method is adopted. Therefore, in conducting a price reform, we are faced with the dual task of readjusting the system and transforming the mechanism. This is where the difficulties in our price reform lie and is also the main theme of this article.

II. Starting Point for the Price Reform

Our country's price system is irrational mainly in the following two aspects: The excessively low prices of basic industrial goods which cause distortion in the materialized labor consumption in our industrial products as a whole; and the [normalcy] of purchase prices being lower than sale prices for our agricultural and sideline products and the excessively low prices of public utility services, which cause the consumption of indirect labor to be quantitatively underrated. The irrational price management system not only cannot alleviate, but even aggravates the confusion in our price system, which is so serious in some aspects as to have become incurable and irreversible. This is the actual starting point of our price reform.

Strengthening the vitality of our enterprises is the key link of our economic structural reform. At present the three mutually linked major factors that hinder the independent management of our enterprises are planning, materials and goods, and prices. Materials and goods are the underlying cause for the confusion which exists in our economic planning. The scramble for materials and goods is in essence caused by the disparity between the prices fixed by the plans and the market prices. The root cause for this competition is prices. Therefore the key factor that predominates the whole economic situation. In particular, the key to enlivening our enterprises, is the level of the sale prices of the industrial products at our factories, particularly, the prices of means of production. For a long time, there have been in the main two views on solving this problem. One upholds carrying out the readjustment in a stride, namely finishing the readjustment of the relations between the prices of primary goods and processed products basically at one stroke (or with one big stride followed by two steps). The problems in so doing are: 1) the drastic change in the price system will force the production system to deviate from its normal orbit and compel the production structure to undergo a drastic reorganization. This might lead to a relative or absolute fall in our production level and economic results for a certain period of time (perhaps 2 or 3 years). 2) the drastic

readjustment of prices will cause price levels to rise sharply at an annual rate that exceeds 7-8 percent, which will give rise to a chain reaction of rotational rises in interest rates, tax rates, wages, and financial burdens which is difficult to forecast or control. 3) The practice of price readjustment in the history of the Soviet Union and East European countries has proved that because of restrictions imposed by a variety of practical factors and because of the errors in the calculation of price forecasts in theory, in fact no rational situation has ever been created by any of their price readjustments. As the economy develops and changes, each price readjustment only prepares the conditions for the next price readjustment (generally 4-7 years later). From the above, we can see that price readjustment, even though drastic, does not provide a radical way out for solving price problems. It is only a means of readjustment to attain a short-lived balance within the old system. What we should particularly pay attention to is that for decades, in the main, there has not been any big change in prices in our country and the prices of primary goods have deviated from their value to an extremely great extent. Therefore, the shock that will be caused by a big readjustment will be so great as to be incomparable with that in other countries. The other view upholds small steps of readjustment. The advantage of this method is to divide up the risk and thus make it easy to sustain. This is a relatively sound and appropriate method. However, there are also limitations in this method, namely, its relatively weak effect in stimulating the production of materials and goods in short supply and in restricting the consumption of the materials and goods in short supply, the relatively small effect and low speed of the readjustment, and the difficulty in giving out correct price signals for readjustment in investment direction and in production structure.

There are limitations in both the method of drastic readjustment and the method of gradual readjustment. The root cause is that these methods overlook the concrete characteristics of the process of our country's economic structural reform and attempt to use the price management methods of the traditional system to solve the price problems under a new system. Our country's economic reform began from the expansion of the decisionmaking power of our enterprises and has already been underway for 5 years. It already has two important characteristics: 1) Our localities and enterprises have already conducted much practice of decentralized decisionmaking and they already have certain decisionmaking powers concerning their production, investment, and distribution. In addition, because of the development of rural reform and the rise of township and town enterprises, the scale of decentralized formulation of policy decisions has already been fairly large. 2) We are breaking with the situation of "eating out of the same big pot" in the relations of the enterprises with the state. The independent interests of localities and enterprises have already taken shape. These two characteristics signify that the major function of prices is no longer the accounting function for the traditional economic system, but has begun to switch into the function of displacing of resources on the basis of interest readjustment. Under the new situation, pure administrative means will fail to work day by day in exercising control. However, if we use other

economic levers to replace the lever of prices and take over its functions, we will give rise to a chain reaction that distorts the system of economic levers. Therefore, reforming the irrational price system has already become an urgent task at present. However, the new interest structure restricts the state's planned readjustment of prices in many aspects: The structure of the vested interest of localities and enterprises is closely linked with the existing price system and production structure and any rise or fall in prices will affect hundreds and thousands of families. We will hardly succeed if we entirely disregard the change in the interest structure that will be brought about by price readjustment. If we compensate each and every party affected, the inevitable result will be that the central government is less benefitted than the enterprises; thus the state will incur a financial burden that it cannot afford. The sharp contradiction between the centralized method of price readjustment and the decentralized interest structure is an important factor that conditions our current price reform.

This contradiction is notably displayed in the poor transfer mechanism in the process of price readjustment under the centralized pricing system. Our enterprises respond to the state's unified price readjustment in a completely different way and with a completely different method from the way and method with which they respond to price change in our market. Our enterprises have a strong capacity to absorb price change in our market (the rise in the prices of raw materials and fuel and the fall in the sale prices of their products). Often by means of improving their technology, lowering their costs, improving their management and developing new designs or varieties of products they adapt themselves to the change in market conditions and thus display their capability for flexible adaptation to change. However, they have a strong desire to transfer the consequences of the state's unified price readjustment and they do their best to minimize losses or even to profit from this transference. This expansionary conduction aggravates the pressure to push up the prices, increases the burdens of the state and the consumers and augments the risk in making policy decisions on price readjustment. The above-mentioned shortcomings of the centralized pricing system in the process of price readjustment have already been proved time and again by the partial price readjustments in the history of our country. Therefore, it will be difficult for us to begin the price reform if we do not adapt ourselves to the new conditions and if we fail to promptly change these mechanisms.

III. Practice is Better Than Theoretical Understanding

When our price reform itself was having difficulties in making a beginning, our practical life had already made great progress. The rich content of the practice of our economic reform has provided people with new clues and enlightenment.

First, in the market for industrial products, there have long been many prices for a single item of the means of production that is in short supply in our country. During the past few years, this practice has developed

even more quickly. The existence of market prices has changed the vicious circle whereby the stricter the monopoly over the products in short supply, the less such products are produced and the less the production, the stricter the monopoly. It provides an outlet for some of the latent production capacity and to a certain extent alleviates the shortage in the supply of the products and the dislocation in our economic structure. There is not necessarily a large amount of materials and goods supplied at market prices, but the influence of these products is very great. They put pressure on consumption as well as promote production and in a certain sphere they offset the "counter readjustment" effect of the irrational price system. Gradually, a buyer's market has taken shape for some of the well-circulated products in short supply at a relatively high price level and the market prices steadily float downward. According to the information supplied by Jiangsu, Zhejiang and other provinces, since 1984, the shortage of coal has eased in the major provinces and regions that lack coal, and the price of coal has been declining there. The market prices of the major materials and goods in short supply have also stabilized at a relatively high level. The supplies of materials and goods at market prices have not only provided conditions for the existence and development of local collective enterprises, in particular township and town enterprises, but have also improved the behavior of our state-owned enterprises. (Footnote 3) (For example, in 1983, our country's oil refinery industry used some petroleum that was sold at the international price (for which the per ton price was raised from 122 yuan to 590 yuan). According to the statistics of 25 large oil refineries, less than 7 percent of the petroleum used by them was of the high-priced variety, which constitutes 22 percent of their material costs. However, calculated at the comparable indexes of the year 1981, the per ton cost of petroleum products dropped by 5.2 percent in 1983 and the high-priced petroleum forced our large enterprises to invigorate themselves. Please refer to the article "After High-Priced Petroleum Entered the Refinery," published in QIYEJIE [Entrepreneurs] Issue No 2, 1984). In order to reduce the consumption of high-priced materials and goods, many enterprises have tried every means to improve their technology, reduce their consumption of energy and raw materials, and enhance their competitive edge. Therefore, many of the provinces, cities and enterprises that consume a relatively large amount of "materials and goods supplied under cooperation" have noticeably increased their production and raised their economic results. Regarding agricultural and sideline products, as rural economy is enlivened, trade in goods purchased and sold at negotiated prices and trade at fairs have developed very quickly and the practice of carrying out business concerning agricultural and sideline products through diverse channels has enabled our urban and rural market to prosper, greatly satisfied the desire of our people, and eased the pressure on our state. Guangdong has decontrolled its markets for aquatic products and live commodities. As a result, the prices of these goods first rose and then stabilized. The reform in our price management system has brought about an automatic readjustment of our price system and provides a new way for carrying out a price reform. In short, along with the quickening of the pace of our economic structural reform, simultaneously carrying out a reform in our irrational price system and rigid price

management system has already become an irresistible torrent. But, the price reform that develops on its own is a slow and bitter process and will also give rise to a series of economic and social problems. This shows that giving macroadministrative guidance to price reform has already become a very urgent task.

The enlightenment gained from our practice in the economic structural reform is: We can promote the readjustment of our price system through the reform in our price management system, and thus change the transfer mechanism that operates in the process of price readjustment and straighten out our prices on this basis. The key to forming a benign conduction mechanism to pass on the impact of price change is to exert an effective pressure on our enterprises through a certain degree of competition between them and thus force them to assimilate price changes. This is determined by the question of whether or not there are open and unblocked urban and rural markets. At present, an important link for enlivening the large and medium-sized enterprises to which the state allocates materials and goods in a centralized manner, particularly the enterprises that produce the means of production in short supply, is to increase the percentage of the products sold by enterprises on their own and allow them to fix the prices for the products that they sell on their own. The development of a large number of small enterprises depends to a great extent on an unblocked market of means of production that are sold at stable prices. At present, the development of our country's rural commodity economy is still very uneven. Some advanced areas are already at the critical point of converting grain and readjusting the structure of their industries. What they need from our cities is not merely some support concerning the purchase prices of agricultural and sideline products. They want the cities to open up to them not only the market for purchases and sales at negotiated prices and the market of agricultural goods, but also the market of means of production and even of information, technology and capital. Then they will be able to purchase the materials, goods, information and technology that they urgently need. Even for those areas where commodity production has not yet been developed, we should not mainly rely on administrative means and financial subsidies to help peasants become rich, but we should unblock the circulation in markets there and help them to develop commodity production. An unblocked and developed market of exchange between urban and rural areas will arouse the pioneering spirit and ambition of the most conservative people in a natural economy and thus bring about a prosperous commodity economy. At the same time, opening up to the outside world and drawing in foreign capital urgently demand a domestic market to coordinate the satisfaction of needs. This will provide a more important and attractive environment for attracting foreign capital than providing communications, telecommunications, utility, housing and other facilities. In grasping macroeconomic balance and accurately control the volume of credit and currency issuance in our economic structural reform, we urgently need a market where prices of goods are allowed to float. In short, it has already become very clear now: Our country's economic structural reform began from the sphere of distribution, has spread and extended to the sphere of production, and is now focused on the sphere of circulation. The key to starting

the circulation movement is prices while the essence of our price reform is the problem related to markets. Without markets, there will be no room for our guidance plans to play their wonderful role nor will we actually be able to enliven our enterprises. Thus the development of our rural commodity economy will run into obstacles.

IV. Road of Price Reform

On the basis of the above-mentioned understanding, we hold that our country's current price reform should not merely be a process of price readjustment, nor should we rely only on the method of loosening controls in carrying out this reform. We must proceed from our country's current national conditions and from the reality of economic reform, combine reform with readjustment and the loosening of control, carry out external reform and internal readjustment, promote the readjustment through the reform, support the readjustment by the reform, adroitly guide our actions according to circumstances and thus chart out a road of price reform that is suited to China's national conditions.

Resolving the prices of primary industrial goods is a key to accelerating the pace of our urban economic structural reform, alleviating the shortage of supplies, and harmonizing our economy. Therefore, in carrying out the price reform, we are entirely justified in, and should exploit the current irreversible trend of reform concerning the increasing of the percentage of means of production to be sold by producers on their own and the loosening of our control over prices. We should adroitly guide our actions according to circumstances, and consciously remove various kinds of administrative interference and price control over the circulation of the materials and goods on which there is no state monopoly. The state materials and goods enterprises should take part in the business in our market and thus we will really establish a market of means of production outside the system of materials and goods allocation, unify the diversified prices other than the state-prescribed prices, and create a situation of stable and falling prices in our market. On this basis, the state can raise the prescribed prices in a planned manner and thus reduce the disparity between prescribed prices and market prices and rationalize our price system. Furthermore, we will form a new price management system in which the unified planned price, floating price, guidance price, and free price each performs its own function and coordinates price movement. On principle, we can consider the following:

1. Organize, expand, and unblock the market of means of production sold at negotiated prices. Our efforts should be focused on the reform in our materials and goods circulation system, sorting out and reducing the scope of mandatory plans and the monopoly over the allocation of materials and goods. Concerning that portion of products to be sold by enterprises on their own and the products that our enterprises have produced in excess of the production quotas, and concerning the materials and goods that are produced by local enterprises and not included in the scope of the state monopoly over the allocation of materials and goods, in the light of the actual situation, we should remove the existing price control at

one stroke or by stages and in groups. When a market with balanced supply and demand at market price level of various kinds of products in short supply has quickly emerged, we will fix a rational and flexible range for the floating of prices. We should allow our enterprises to have full power in fixing the prices of the materials and goods sold by themselves and thus enable our enterprise to enter into the process of materials and goods circulation as truly independent economic entities.

2. Government administration should be separated from enterprise management in our materials and goods departments. The materials and goods enterprises at all levels should all enter the market of means of production while satisfactorily doing their original jobs of allocating materials and goods in a unified manner. They should exploit their advantages related to information, funds, foreign trade and storage and transport, publicly quote prices and do business, take in and send out goods in large quantities, and play their guiding role in introducing buyers and sellers to one another and in pushing down prices. The prices quoted by the enterprises in our materials and goods sector and the range for the floating of prices fixed by our price management departments in the light of these quoted prices will be the major forms of the realization of the prices of guidance plans that are based on our market. In order to ensure that our materials and goods departments play their guiding role in pushing down the prices and in order to ensure the rational layout of our stock of materials and goods, the state can allocate a certain percentage of imported and monopolized materials and goods to the materials and goods enterprises and allow them to put these materials and goods into the market. It should also allow them to enjoy the preferential rights to purchase the goods that enterprises produce and sell on their own, to be provided with loans at preferential interest rates and with a certain quota of foreign exchange and to fully use the facilities to carry out foreign trade.

3. Our market for the means of production should be extended on the basis of existing trade centers and those under development. Putting materials and goods into the market and enlivening prices in a planned manner will promote the quick emergence of a large number of national and local centers for collection and distribution of materials and goods. In order to speed up this process, the state materials and goods bureaus and our local materials and goods departments can adopt methods such as dumping materials and goods and transmitting information to consciously help some cities that are provided with proper conditions. Under the cooperation and help of these cities, they should set an example and guide people to establish and develop comprehensive or specialized markets of means of production. By so doing, we will quickly form a materials and goods circulation network that is well-linked vertically and horizontally and is provided with backbone and supplementary units. Thus, a prosperous and unblocked material in which trade is carried out on an equal footing will soon replace the existing market where bartering of things is carried out and where various kinds of abnormal or even illegal non-price trade is being conducted.

4. The direction in reducing the scope of materials and goods on which state monopoly over purchases and sales is imposed, and the direction in enlivening prices should be consistent with the direction in reducing the scope of mandatory plans at present. Therefore, we should consciously make them gradually match with each other. In formulating mandatory plans, we should also gradually switch to the method of first fixing the targets for the key means of production for the key projects, communications and national defense that the state must ensure the supplies for, and then calculating from them the basic materials needed. By so doing we will finally actually or nearly practice the principle in which those who sell their products at low prices buy their raw materials at low prices and those who buy their raw materials at high prices sell their products at high prices, and thus ensure the external conditions for enterprises of various kinds to compete with one another on an equal footing and operate independently.

5. The emergence of an unblocked market for the means of production causes the market prices of major materials and goods to become unified and stable and to fall. Therefore, the state is provided with the conditions to readjust prices by its plans. What we can foresee about the situation by that time is as follows: 1) The market prices have already risen sufficiently, the price relations are becoming rational, and the disparities between prices have been widened, so that the state is provided with a reliable basis for price readjustment. 2) The price transfer mechanism has been improved, the enterprises' desire to raise prices is restricted by the market, and the entire economy is more capable of assimilating price readjustments and its capability to resist the impact of price readjustment has been enhanced. 3) It is not necessary to change by much the prices of products for which supply and demand are balanced, but we must change the prices of those products in short supply. By that time, we can adopt the following three methods: a) We can directly implement the method of allowing prices to float for those products whose supply and demand are balanced and for which the listed prices and market prices are the same; b) for those products whose listed prices do not greatly differ from market prices, we can gradually increase the percentage of them which is sold at negotiated prices, and then fix a range of difference between the two kinds of prices, and thus give rise to a new level of listed prices and allow market prices to fluctuate around this level. c) Concerning a small number of products that are in very short supply and whose listed prices differ greatly from market prices, we should raise the listed prices in the light of the steady trend of market prices with due consideration for theoretical prices and the prices in the international market.

This kind of reform, loosening of control, and readjustment form a circle. At the first stage, reform is the major task and we should readjust prices while carrying out the reform. At the second stage, readjustment is the major task and we should carry out reform while readjusting prices. Sometimes, we should carry out reform and readjust prices at the same time. Through one or several such circles, the reform and readjustment related to the prices of means of production will hopefully be smoothly completed.

One of the basic lessons drawn from the price reforms in some East European countries is that they failed to satisfactorily solve the price problems for their consumers during the golden times of their price reforms and thus suffered an increasingly heavier financial burden. We should refer to this lesson and moreover, the practice of our country's economic structural reform has already put this problem before us. Therefore, while solving the problems related to the prices of basic industrial products, we can carry out a relatively speedy reform in the management method concerning the prices of general industrial products whose supply and demand are balanced and which are used for quite specific purposes. We can relatively quickly switch to the methods of regarding floating prices as the major form of prices. We should control the rise of the general price level caused by the structural change in prices and elastically transmit the rise to the factory prices of processing industrial products and to the prices for the consumers. For according to the law of price conduction, small changes in prices can be assimilated, but a big change will inevitably bring reaction. By utilizing small and benign chain reactions, we can remove the obstacles to the conduction, overcome the new distortion in the price system, and at the same time correspondingly compensate our staff and workers in wage increases. Regarding the problem of the purchase prices of agricultural and sideline products being lower than their sales prices and of public utility services being provided at a charge lower than their costs, we should not wait till all the prices of industrial products are straightened out and then consider this problem. For we may thus lose fine opportunities. However, it is also inappropriate to be impatient and to want to solve all the problems at one stroke, or fear that this will produce so shocking an impact in increasing the demand that it will affect the progress of the urban economic structural reform. In principle, we can consider the following: 1) We systematically break away from the situation where the state imposes a monopoly on the purchases and sales of major agricultural and sideline products at fixed prices. 2) We implement the principle of sharing the risk and give play to the initiative and creativeness of localities. We may allow localities to flexibly handle in the light of local conditions the purchases of, subsidies for, and sales of the agricultural and sideline products that are specifically local. 3) In resolving the large amounts of subsidies for the losses caused by low sales prices, it is better to conduct unified readjustment. The timing of the readjustment should also be well chosen so that it takes place in the interval between readjustment of the prices of industrial goods. Thus when there is a reform related to the prices of industrial goods, we readjust the prices of agricultural products and vice versa so that when there is tension in one sector, the other is relaxed. The best method is to start with a complicated item and then make progress steadily. For example, we can start from solving the problem related to the category of goods that were formerly supplied by quota. For switching from giving subsidies in disguise to giving subsidies in the open for these goods will not cause any drastic fluctuation in the market prices of the commodities in similar categories. Therefore, this will have little impact on the value of our currencies and also a small chain reaction.

We think that this road for the entire price reform will have the following three advantages:

First, it reduces price disparity and thus stabilizes the whole economic situation and the present method of distribution of interest and it makes arrangements for opening up the market for the means of production and thus makes the various legal and illegal prices existing at present change to one unified price, thus carrying out external reform and internal readjustment. The short-term effect of this is: 1) It quickly readjusts product mix and structure of variety, puts into operation some idle production capacity, and urges our enterprises to increase the output of the products and varieties of products that are profitable at the current listed prices and to switch to the production of those varieties that are in short supply in the market. 2) It conserves circulation expenses and puts into circulation a large amount of the scarce means of production that was formerly stockpiled. This makes it possible to solve the long-standing big problem of floating capital being locked up in stock. It will thus both release huge amounts of funds and vigorously balance supply and demand, and push prices down. 3) It effectively restricts waste and consumption of scarce basic products. The long-term effect is: 1) It urges people to invest in a rational direction and raise the comprehensive economic results of investment. In turn, the rational investment structure will augment the capacity of the entire economy for the general scale of investment and thus facilitate the taking off of the economy. 2) It facilitates the quick and smooth restructuring of our production. 3) It improves the behavior of the units of economic activity. As these units gradually establish their normal and stable relations with the market, both their ability to cope with changes and their quality will be improved.

Second, it opens up the way for strengthening the vitality of large enterprises and correctly giving play to the role of central cities. At present, the following two phenomena are universal for our big and medium-sized backbone enterprises. First, because the prices of basic industrial products are too low and seriously deviate from their value, the big and medium-sized enterprises that produce these products are relatively tightly controlled by plans. As a result, most of the products that they produced in excess of the planned targets were divided up by departments and localities, therefore, these enterprises have relatively small decisionmaking power and thus are not able to score any great achievements. Second, many of the large enterprises that consume large quantities of basic industrial products have a poor ability to cope with any change because they have long been used to depending on cheap raw materials and fuel and to practicing serious waste. Expanding the market and enlivening prices can very vigorously give play to the initiative and creativeness of the former enterprises and tap their potential. It can also exert heavy pressure on the latter. On the other hand, when a reform in the materials and goods circulation system follows the taxation reform, the direct dependence of our enterprises on city governments and administrative

departments will greatly be reduced and the links inside the market and the enlivening of the market will inevitably guide the development of our cities in the correct direction of becoming open-type cities.

Third, alternately solving the problems related to the prices of basic industrial products and to the prices of consumer goods will reduce the risk and prevent us losing opportunities. This will properly accelerate the pace of our price reform. The step-by-step solution of the problem of the purchase prices being lower than sales prices for our agricultural and sideline products is of great significance both for the smooth exchange between urban and rural economies and for the rationalization of the whole price system.

Of course, price reform is not an isolated process and its smooth progress requires strict coordination in other fields such as finance, credit and foreign trade and the coordination of the method of compensating price increases through increased wages. As the length of this article is limited, we will not discuss them.

CSO: 4006/576

FINANCE AND BANKING

ANHUI HOLDS AUDITING WORK CONFERENCE 6-10 APRIL

OW241041 Hefei ANHUI RIBAO in Chinese 12 Apr 85 p 1

[Text] A provincial meeting on auditing work was held in Hefei from 6 to 10 April. The meeting transmitted the guidelines of the national conference on auditing work, exchanged experience in auditing work, and studied and arranged this year's tasks.

In line with Premier Zhao's instruction, which says: "The more enlivened the economy is, the more necessary it is to intensify the management and supervision; the auditing work is an indispensable aspect in intensifying the management and supervision and an important guarantee for smooth progress in the opening to the outside world, the invigoration of the economy, and the expansion of decisionmaking powers of lower-level units," the meeting exchanged the experience and arranged the work in strengthening the leadership over auditing work, improving its organization, and augmenting its personnel; in actively taking part in, supporting, and promoting reforms; and in intensifying the supervision and checking of new unhealthy tendencies in order to ensure the smooth progress of the reform of the economic structure and accelerate the modernization drive in our province.

Zhao Baoxing, secretary of the provincial Discipline Inspection Commission, spoke at the meeting. He stressed, in particular, the auditing organs' important duty in checking and correcting new unhealthy tendencies, and urged discipline inspection organs to give vigorous support to the auditing work in serving the common goal of economic structural reform and modernization drive.

Vice Governor Shao Ming also spoke at the meeting. Comrade Sun Jie, deputy director of the provincial auditing bureau, made a summing-up speech at the meeting.

CSO: 4006/576

FINANCE AND BANKING

GANSU ISSUES CIRCULAR ON RELAXING FOOD INDUSTRY POLICIES

HK251235 Lanzhou Gansu Provincial Service in Mandarin 0430 GMT 25 Apr 85

[Text] The provincial Economic Committee, the provincial Finance Department, and the provincial People's Bank have recently issued a joint circular on further relaxing the policies on the food industry.

The circular provides: Newly established food industrial enterprises will be exempted from income tax for a year. After the expiration of the year for which they were exempted from income tax, if they still encounter difficulties in paying their tax, with the approval of the tax organs, preferential treatment can be given them by reducing their tax for a specified period. Product tax and income tax can be remitted for the enterprises which specially produce food for children and infants and directly supply snacks and convenience foods for students in universities and middle and primary schools, whose products do not enter the market, which fix prices for internal supply, and whose profits are small. Moreover, the policy on extensively raising capital will be implemented. Except for work personnel in party and government organs, state-run and collective-run enterprises and individuals are allowed to invest in, become shareholders in, and run the food industry.

The circular also demands that industrial and commercial banks and agricultural banks vigorously support medium and small industrial food enterprises to carry out technical transformation and business [words indistinct]. They must also properly relax conditions for state-run and collective-run food enterprises to repay loans. People's governments in all places must vigorously help peasants to develop the food industry in their own localities. Industrial food enterprises are allowed to run by themselves or to run jointly with farms and rural specialized households [words indistinct] bases so as to develop the food industry still better.

CSO: 4006/576

FINANCE AND BANKING

NEW FINANCIAL MANAGEMENT IMPLEMENTED IN GUANGZHOU PROVINCE

Guangzhou NANFANG RIBAO in Chinese 20 Jan 85 p 1

[Article by Li Sensheng [2621 2773 4141]: "In 1985 Guangdong Province Put into Effect New Financial Management System in Cities and Regions: New Classification of Taxes, Verification of Incomes and Expenditures, Contractual System on All Levels and 5-year Fixed System"]

[Text] In accordance with the current economic development situation, Guangdong Province is putting into effect a new financial management system in its cities, regions and counties, starting in early 1985. The new system is characterized by the "classification of taxes, verification of incomes and expenditures, a contractual system on all levels and a 5-year fixed system." This new system is a decision of the provincial finance-and-tax conference, held by the provincial people's government in Guangzhou on 18 November 1984.

The basic principle of the new financial management system is to keep the advantageous factors, to discard the disadvantageous side of the existing financial management system and to continue the system of "unified leadership and management on all levels." Cities and regions are signing contracts with the provincial departments. Counties are contracting with cities and regions. Each level has its assigned competence and responsibility. For classified tax items the base of the contract settlement is the retained amount of financial income in 1983, according to which is fixed the amount for turning over to the assigned level. This method is called "progressively increased contracting." The province provides certain subsidies to the cities and regions, whose income is lower than the expenditure. The fixed amount for turning over to the assigned level and the fixed amount of the subsidies are not supposed to change for 5 years, between 1985 and 1989. The administration of the financial power at all levels is clear, so that they can make their overall plans for construction, culture and education.

The conference decided to make different contract systems for cities and regions because of their different situations: 1) the system for Guangzhou is "verification of basic amount, fixing the amount turned over to the province, retaining a percentage from the extra income and a 5-year fixed amount." 2) The cities Foshan, Jiangmen, Shaoguan, Shantou, Zhanjiang and Maoming, which have counties under their administration and also have the city-and-county unified financial system, accept the system of contract of the city-to-province

structure. 3) Huiyang and Zhaoqing regions contract directly to the province in the same way as the city does to the province. The Meixian region will use this system later. 4) Hainandao Island, as an administrative area, is contracting directly with the province. The Li and Miao nationalities autonomous prefecture will work as an independent financial level. 5) Shenzhen and Zhuhai will operate their financial systems according to the special policy of the central government.

Governor Liang Lingguang [2733 7227 0342] and Deputy Governor Yang Deyuan [2799 1795 0337] also made speeches at this conference. Both required the party committees and governments at all levels to strengthen their leading functions in financial and tax work and to fulfill conscientiously the reform of these tax systems in order to accelerate the reform of the whole economic system. Financial administrations at all levels must follow the principle of "creating more resources, reducing expenditures and blocking leaks; and try harder for a more favorable turn of the economic situation in Guangdong Province.

12715

CS: 4006/345

FINANCE AND BANKING

BRIEFS

TAX PAYMENT IN HUBEI--In 1984 Hubei Province gained 3.18 billion yuan in taxes on industry and commerce, which is 189 million yuan higher than the state plan had assigned. Counting the comparable factors, the tax amount is 10 percent higher than in 1983. Owing to the reform of the urban economic system and to the change from the interest program to the tax system in the second stage in 1984, the enterprises gained more productive energy, heavy industry produced much more than before and urban commercial activities became more brisk. All these increased the city tax. Wuhan, Shashi, Yichang, Shiyan, Huangshi, Jingmen, Ezhou and other cities fulfilled their 1984 plans ahead of schedule. In the countryside, the provincial revenue department readjusted the rural tax policies in accordance with the principle of "different treatment within the department's competence" and encouraged commodity production in the countryside; therefore, the tax sources increased. Because of the establishment of an independent revenue institution, tax collection was clearer and more successful. Revenue workers went down to the basic levels, enlarged the tax sources, carried out strict revenue policies and decreased the amount of tax debt. [Text] [Wuhan HUBEI RIBAO in Chinese 3 Jan 85 p 1] 12715

TOBACCO INDUSTRY TAX FOR 1984--China's tobacco industry turned 1.08 billion yuan in taxes and profits in to the state in 1984. The tobacco industry is, after the petrochemical industry, the second industry, which also turned big money in to the state. This resulted from the change in the management of system, to a concentrated management, in selling tobacco products in the last 3 years. The reform in the tobacco industry was started in 1981. The Chinese General Tobacco Company, which was established in 1982, carried out the policy of concentrated management in personnel affairs, property, product handling and foreign and domestic trade. In 1983 the State Council issued "Regulations for the Management of Selling Tobacco Products." In this industry a system of special distribution and sale was developed. These regulations for tobacco production improved the quality, promoted the supply, arranged the consumption and increased the profits. [Text] [Nanjing XINHUA RIBAO in Chinese 7 Jan 85 p 3] 12715

TIANJIN OUTSIDE FUND UTILIZATION--By the end of March, Tianjin Municipality had scored marked achievements in utilizing outside funds. The municipality opened 10 high-class joint-venture hotels and restaurants by receiving nearly \$100 million and opened more than 10 taxi companies by introducing nearly U.S.\$5 million and buying more than 1,000 sedans. [Summary] [Tianjin TIANJIN RIBAO in Chinese 11 Apr 85 p 2]

QINGHAI INCREASES RURAL DEPOSITS--The province's rural savings deposits continue to increase this year. By the end of March, the province's total balance of rural savings deposits was more than 187 million yuan, an increase of 37.8 million yuan compared to the same period last year. Taking the province's population as a whole, the per capita savings was 67.53 yuan, an increase of 3.05 yuan compared with the end of last year. [Text] [Xining Qinghai Provincial Service in Mandarin 1100 GMT 17 Apr 85]

USE OF FEN COINS--In view of the virtues of the fen coin, including low cost, longer circulation life, and convenience in counting, the head office of the People's Bank of China has decided to resume the circulation of the fen coin throughout the country to gradually replace the circulation of the paper fen. After the fen coin is circulated, both coin and paper fen can be used in the market continuously. However, the paper fen will be withheld from circulation after returning to various banks. [Text] [OW231417 Shanghai City Service in Mandarin 0100 GMT 22 Apr 85]

CSO: 4006/576

CONSTRUCTION

BRIEFS

SHANDONG'S YANTAI HARBOR PROJECT--A ceremony for starting the construction of the (Xigangshi) project in Yantai Harbor was ceremoniously held in Yantai, Shandong Province, on 20 April. The (Xigangshi) project is located at the western side of Yantai Harbor. The annual designed loading and unloading capacity is 3.9 million tons. The principal parts of the project involve a 740-meter bank revertment and breakwater, and six 10,000-ton-class to 25,000-ton-class berths. The budgetary investments in the project are estimated to be over 350 million yuan. Construction of the project is planned to be completed by the end of 1989. [Summary] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 20 Apr 85]

CSO: 4006/576

FOREIGN TRADE AND INVESTMENT

BUSINESS PAPER URGES EXPANSION OF EXPORTS TO JAPAN

OW230018 Beijing XINHUA in English 1046 GMT 22 Apr 85

[Text] Beijing, April 22 (XINHUA) -- China's exports to Japan must be expanded to smooth the way for a further development of Sino-Japanese trade, says an article in today's "International Business."

The weekly newspaper published by the Ministry of Foreign Economic Relations and Trade backed up the article by quoting an official of the Japanese Association for the Promotion of International Trade.

The official, who was attending the Guangzhou export commodities fair, called for an expansion in the number of Chinese finished products sold to Japan.

Japan is China's largest trading partner. Two-way trade hit a record of more than 12.7 billion U.S. dollars last year, and may reach 15 billion this year, the paper quoted the Japanese official as saying.

But China suffered a trade deficit of two billion U.S. dollars last year. The paper said this gap should be narrowed, Japanese business chiefs should invest more in China's manufacturing industry and expel their reluctance to transfer new technology to China.

The paper expressed the hope that the Sino-Japanese 1986-1990 long-term trade agreement, to be discussed this year, would lay a solid foundation for a prolonged and steady growth in co-operation.

In recent years, China's imports from Japan have increased greatly, especially rolled steel, motor vehicles, household electrical appliances and industrial equipment. China's exports of crude oil, grain and textiles have also increased sharply.

In addition, China and Japan have expanded co-operation in other areas.

Over the past five years, Japan has set up 57 joint ventures in China. The Japanese government decided last year to provide 2.1 billion U.S. dollars of loans to help China build seven railway, harbor, hydroelectric power and telecommunications schemes over seven years.

Sino-Japanese joint exploration and development of offshore oil resources has also proceeded quickly. So far, five contracts have been signed. The Japanese side has invested about 800 million U.S. dollars.

The Japanese Government also provided one billion Japanese yen (4.05 million U.S. dollars) to help Jilin, Liaoning and Xingxia increase grain production.

CSO: 4020/208

FOREIGN TRADE AND INVESTMENT

BRIEFS

BUS PRODUCTION WITH FRG HELP--With German help, the People's Republic of China wishes to establish bus production in Shanghai and in the adjoining province of Zhejiang. The Chinese industrial concern, China Great Wall Industry Corp., wants to take on the firm, Wühl Heidenheim, Europe's largest private bus firm, as consultant for the project. A corresponding memo was signed in the present of Martin Herzog, the Baden-Wuerttemberg Minister of Economics. In the past three weeks, under the direction of Chen Ming-Yuan, the director of the Shanghai concern, a Chinese delegation visited the West German bus firms, including M.A.N. and Kaessbohrer and mechanical engineering firms. The Chinese wished to obtain specific parts and aggregates for the German manufacturer so as to be able to produce the "custom-made buses" for the Chinese market. According to the delegation, Wühl, with its fleet of approximately 450 buses, was selected because it had the greatest know-how in all areas of the bus industry. [Text] [Munich SUEDEUTSCHE ZEITUNG in German 11 Mar 85 p 20] 12348

SHANGHAI GREETES FRENCH MINISTER--Mayor Wang Daohan met and feted Madame Cresson, French minister of foreign trade and industrial redeployment, and her entourage at the Jinjiang Hotel at noon on 14 April. Both sides had a wide-ranging discussion and a warm, friendly conversation on further strengthening economic and technical cooperation and trade relations between France and Shanghai. While meeting with the French guests, Mayor Wang Daohan pointed out: Shanghai will strengthen French studies. He also suggested that both sides establish a joint consultation group. Minister Cresson and her entourage arrived in Shanghai from Beijing by plane on the evening of 13 April. [Text] [Shanghai City Service in Mandarin 0100 GMT 15 Apr 85]

CSO: 4006/566

LABOR AND WAGES

LABOR UNION FUNCTIONS DESCRIBED

Beijing GONGREN RIBAO in Chinese 13 Jan 85 p 1

[Editorial: "Trade Unions Should Lead Workers To Becoming Richer"]

[Text] The revolutionary torrent is pulling toward us a great number of new tasks and new requirements. The most important one is the requirement that labor unions at all levels should make an effort to organize workers to go the way of hard work in order to be richer. This is a new aspect of union work.

The main link to reform of the city's economic system is to activate all enterprises. The source of such enterprise activation is the enthusiasm, wisdom and creativity of mental and manual workers. The Central Committee of the Chinese Communist Party in its decision to reform the economic system points out: "Workers, while their position as masters of the society is assured in the regulations and principles of enterprises, and while their work is firmly joined with their material interests, will fully perform their activities with enthusiasm, wisdom and creativity." This requires our labor unions to achieve democratic management with the participation of workers to carry out conscientiously the principle of distribution according to work effort and to guide the workers to become richer. The union organizations at all levels are paying constant attention to the social position of workers but must strengthen that work in the future, even though they still do not realize fully the task of guiding workers to become richer. The union organizations have to help all union workers realize this.

To lead workers to become richer is an important strategic decision of the Chinese Communist Party. The 3d Plenum of the 12th Central Committee of the CCP pointed out: "Only the fact that certain areas, some enterprises and some people are allowed and encouraged to become richer through their hard work can attract and inspire many people and lead more and more people to become richer." Undoubtedly, this decision is quite popular, is in accordance with socialist development and is the way for the whole society to become richer. Union organizations must implement this decision fully and make it as their prime goal and responsibility.

Do the union workers realize this task well enough and are they actively carrying out this work? We must say that the labor unions do care about the

daily lives of the workers. However, in the new reform situation, it is not enough that the union organizations are limiting themselves only to resolving the day-to-day problems of workers, like giving some subsidies to lower-income families, to helping them, to convincing them to help each other and to visiting families in need. Labor unions must in the meantime organize workers to become richer and to guide and mobilize them to go in this direction. Otherwise, the labor union organizations will not be able to apply their proper role and will cut themselves off from the masses in the things that the workers are demanding and to which they are giving their greatest attention. Union organizations must unite and lead the workers to participate in the reform of the distribution and benefit systems, lead the workers to become richer through their own hard work and promote the development of the general economy; they must have a clear-cut stand to support the increasing differentiation of wages. That will clearly embody the principle of reward for hard-working persons and punishment for defective products and regulate the payment of more for completed work and less for incomplete work. The unions must support better-operated enterprises and harder-working employees to encourage them. They must also support the system of using more qualified persons and large rewards for creative work and support changing the situation in which intellectual workers are being paid relatively less. Our union workers are not supposed to represent backward ideas, should not reflect the need of persons who are used to "eating out of the same pot" or protect old ideas and routines that are not suitable to the reform program or encourage the idea that equalitarianism is a "socialist superiority." Generally, the union organizations must feel their justice in encouraging, supporting and organizing workers to become richer.

At the present time the main way for workers to become richer is to support and overreach their assigned economic tasks with creative enthusiasm, to increase greatly the economic results of enterprises and to earn more money for their greater productivity. The labor union must keep in mind the economic responsibility system, that is, mainly the contractual work, which is the content of the drive for the workers to emulate. The one who works harder and gets more results is the leader and model and must become richer. The union organizations must encourage the model workers in that way. Advanced production collectives can dare to become richer, become prominent and be a big force in attracting and leading the mass of workers who have become richer through the economic reform and who have earned more because of having done better jobs. Union organizations must urge the advanced workers to teach the less advanced workers so that the unsuccessful enterprises can catch up with the progressive ones and those who have lost can extricate themselves from their predicament. Also, they must let unqualified workers master advanced technology in order to be able to fulfill their assigned quotas of work and thus gain more income. Union organizations must be interested in changing idlers in to hard-working people who become richer.

If the union organizations clearly realize their task to lead workers to become richer and implement the party's policy to "letting people be richer," they can mobilize the enthusiasm, wisdom and creativity of the mass of workers, constantly promote technology and technical reform, promote management, increase the economic results of enterprises and contribute, as a labor union should, to the development of the social productive forces of the country.

LABOR AND WAGES

BRIEFS

YOUNGER INDUSTRIAL WORKERS--Beijing, May 3 (XINHUA) -- Sixty percent of Chinese industrial workers are under 35, the All-China Federation of Trade Unions announced today. An annual average of four million young people, mostly middle school graduates, have received industrial and construction jobs in the past decade. They are becoming the backbone of the country's industrial labor force, with large numbers of aged workers retiring every year. By the end of last year, the federation added, more than 60 percent of China's large and medium-sized factories and mines had promoted people in their 30's and early 40's to key positions. [Text] [Beijing XINHUA in English 0818 GMT 3 May 85]

ACTFU AWARDS MEDALS--Beijing, April 30 (XINHUA) -- The All-China Federation of Trade Unions (ACFTU) awarded May Day labor medals to 1,002 advanced workers here today for their excellent performances in helping the modernization program. The presentation was made at a rally at the Great Hall of the People marking the 60th anniversary of the founding of the ACFTU and May Day, International Labor Day. Wan Li, Xi Zhongxun and other party and state leaders joined some 6,000 people at the rally and presented medals and certificates to the advanced workers. This is the first time the ACFTU has awarded medals to advanced workers and the practice will be continued every year. The medalists, selected by the ACFTU's local branches, included factory directors, company managers, engineers and teachers, as well as workers. Twenty-one-year-old textile worker, Li Xing, the youngest medalist said, "I never dreamed of having such a great honor." Among the 1,002 advanced workers, 171 were women. [Text] [Beijing XINHUA in English 0904 GMT 30 Apr 85]

RATIONALIZATION, NEW TECHNOLOGY URGED--Beijing, April 29 (XINHUA) -- Representatives of advanced workers called for a campaign of rationalization and technological upgrading here today. The 123 represent 1,000 workers in Beijing to receive "May 1" labor medals. They say workers, as the "real masters" of industry, should join cadres and intellectuals in this aspect of management to increase production and efficiency. They hope to vitalize the current economic reform and technological restructuring, just as a similar campaign in the 1950's boosted economic construction. [Text] [Beijing XINHUA in English 1456 GMT 29 Apr 85]

RURAL INDUSTRIAL PROGRESS MARKED--Beijing, May 4 (XINHUA)--Over 52 million Chinese peasants now work in factories and mines run by townships, at least 14 percent of the rural labor force. This excludes workers in villages, factories and family workshops, according to the Ministry of Agriculture, Animal Husbandry and Fisheries. Township industrial enterprises, numbering about six million, yielded in 1984 a record 170.9 billion yuan in output value and 18.7 billion yuan in profit, paying nine million yuan in taxes, also an all-time high. China has limited farmland relative to its rural population of well over 800 million. Of its 500 million rural laborers, at least 150 million are not needed on the land, estimates leading sociologist professor Fei Xiaotong. Rural industrialization is aimed at absorbing surplus rural labor, while helping build up a market-oriented rural economy to replace the traditional, mainly subsistence, small farming economy. Ministry statistics show that rural enterprises play no small role in economic development. Over one-third of China's 20.4 million builders are peasants. One-third of building in 1984 -- in terms of completed floor space -- was done by peasants. Township enterprises provided 2.7 billion yuan worth of goods for export through government foreign trade agencies, according to the ministry. [Text] [Beijing XINHUA in English 1200 GMT 4 May 85]

CSO: 4020/211

TRANSPORTATION

HAINAN HOLDS CONSULTATIVE CONFERENCE ON PORT DEVELOPMENT

HK260121 Haikou Hainan Island Service in Mandarin 0400 GMT 25 Apr 85

[Excerpts] At the invitation of the Hainan Administrative Regional People's Government and the Hainan Port Office, a consultative conference on development and construction of ports on Hainan Island, sponsored by the planning and development committee of the China Port Association, the port work committee of the China Civil Engineering Society, and the coastal stream outlet subdivision of the port division under the State Scientific and Technological Commission, was held in Haikou City from 20 to 24 April.

Attending the conference were more than 70 people from 45 units throughout the country, including specialists, professors, engineering and technological personnel, and business management executives.

At the conference, the participants exchanged research achievements, mainly in five special subjects. After earnestly discussing and studying these research achievements, they unanimously held that these achievements will provide an important technological and theoretical basis for further renovating, expanding, and building ports and will also upgrade the academic level of communications and transport economy, port layout theory, and coastal stream outlet and port engineering.

At the conference, the participants held in-depth studies and discussions mainly on the feasibility of building a deepwater port at Haikou's (Baishajiao) bank, and put forward items on which feasibility study will be continued.

During the period of the conference, the delegates also inspected Haikou port, Yangpu port, and Haikou's (Baishajiao).

CSO: 4006/576

TRANSPORTATION

BRIEFS

PLAN FULFILLED AHEAD OF SCHEDULE--Beijing, 15 December: China's Railroad Ministry reported that the 1984 national plan of railroad transportation was fulfilled at 6:00 p.m., 15 December. The completed transport of passengers and cargo reached a record level. Up to 6:00 p.m., 15 December the national railroad system had transported 1.16 billion tons of cargo. This amount is 4.7 percent higher than in the same period of 1983. The 1984 passenger transportation plan was fulfilled by 13 December. The number of transported passengers was 1.06 billion. This number is 6.2 percent higher than in the same period of 1983. The statistics show that more than 70 percent of the cargo and 60 percent of the passengers in China are transported by trains. The transport of passengers in 1984 was comparatively heavy. During the first 10 days of December 1984 there were 3.3 million passengers to be transported. This number of passengers was higher than in the peak period of the last Chinese New Year. [Text] Kunming YUNNAN RIBAO in Chinese 17 Dec 84 p 4] 12715

CONSTRUCTION OF NEW HIGHWAY--Construction of the third main highway from Shaanxi to Sichuan was started at the beginning of November 1984 in Nanzheng County. This highway is called the "Double-Nan Highway" and starts from Nanzheng county in Shaanxi Province and crosses the Micang Mountain Range to Nanjiang County in Sichuan Province. The length of the highway is 133 km. According to statistics from 10 November, 6,000 people worked on the project. The project will be ready at the end of 1985. This highway not only joins the existing highways between Sichuan and Shaanxi but also shortens the distance by about 300 km between the Chuanbei area and the Hanzhong area. This new highway has an important meaning for improving commercial exchange between the two provinces and in changing the backward economy in the mountain range. [Text] [Xian SHAANXI RIBAO in Chinese 20 Nov 84 p 1] 12715

CSO: 4006/332

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

HONG KONG'S ECONOMY ANALYZED

Beijing GUOJI MAOYI WENTI /INTERNATIONAL TRADE JOURNAL/ in Chinese No 1, Jan-Feb 85 pp 1-15

/Article by the Hong Kong Investigation Team of the China International Trade Society: "A Comprehensive Investigative Report on Hong Kong's Economy"/

/Text/ Under the leadership of Comrade Sun Chun /1327 4783/, deputy standing director of the society, the eight-member Hong Kong investigation team of the China International Trade Society went on an inspection tour to Hong Kong and Macao from 27 July to 23 August. We held discussions successively on over 20 occasions with the major companies of the Chinese shareholders (cliques) as well as the enterprises run by Hong Kong and Macao, businessmen. We visited the editorial department of the "Economic Guide" and the Bank of China. We discussed the economic and trade issues of Hong Kong and Macao with the responsible comrades, exchanged our views on those issues, and also collected some first-hand materials accordingly. We visited over 20 factories, including textile, printing and dyeing, garment, electronics, fur, toy, furniture, cement, tobacco and container factories. At the Qingyi Island oil depot, we immediately comprehended the situation of energy supply in Hong Kong and Macao. We conducted an on-the-spot inspection of the Kuiyong pier in Hong Kong--one of the three world's largest container transport and distribution centers, the other two being Rotterdam and New York.

In the course of inspection, we profoundly felt that our special economic zones /SEZ's/ and 14 coastal open cities should learn from Hong Kong. From this angle, we have written "Hong Kong's Economic Development and the Reasons Behind It." At the same time, we have compiled special topic materials on the four industries (clothing, electronics, toy, and furniture) which occupy important positions in Hong Kong's economy.

1. Hong Kong's Economic Development and the Reasons Behind It

Hong Kong has poor resources and has roughly 404 square miles of land, which is roughly equivalent to Changping County under the jurisdiction of Beijing Municipality. Of this, less than 20 percent

of the land can be used in urban construction. According to the statistics of the British officials in Hong Kong, in 1950, the population was 2.36 million. Since then, there has been an increase of 1 million people roughly every 10 years. Currently, the population is roughly 5.5 million. Compared to the Shenzhen SEZ, Hong Kong is only half of the size of Shenzhen. However, the population is roughly 17 to 18 times that of Shenzhen. In 1983, the gross value of industrial and agricultural output /GVIAO/ in Shenzhen was 870 million yuan in RMB. The GVIAO in Hong Kong was HK\$260.8 billion. However, over one-half of this was income from tertiary industries, most of which in reality did not create any value. Thus, it was estimated that the GVIAO was some HK\$80 billion, which was roughly some 24 billion yuan in RMB, and which was equivalent to some 30-fold that of Shenzhen.

Because the level of Hong Kong's economic development is higher, in recent years, the statistics of international organizations and western journals have listed Hong Kong as a "newly rising industrialized region." However, due to such factors as size and resources, the structure and model of Hong Kong's economic development are different from the other "newly rising industrialized regions." These can be summarized briefly as follows:

In the 1950's, Hong Kong was still basically a traditional commercial port with entrepot trade as the key. In the gross volume of exports, the ratio between exports of products made in Hong Kong and transit goods was roughly 3:7. After liberation, residents who moved from such places as Shanghai brought with them funds and technological and management experience. This was the primary foundation for the "industrial takeoff" in Hong Kong in the 1950's. The breakthrough in the "takeoff" was the textile, printing and dyeing and clothing industries. The year 1959 was a major turning point. This year, the amount of export of products made in Hong Kong totaled HK\$2,282,000,000, surpassing that of transit goods (HK\$990 million). The ratio of the two was reversed coincidentally at 7:3. This signified the change of Hong Kong's economy from one of reliance on transit trade to one of reliance on the manufacturing industry. The 1960's and 1970's marked the period of the rapid development and maturation of Hong Kong's economy. During this period of time, Hong Kong's industrial structure gradually took shape. Its basic characteristics were an emphasis on the labor-intensive textile industry, on the assembly and processing of semifinished products, on the orientation of sales abroad, and on medium-sized and small factories. At the same time, trade, shipping and banking also developed accordingly, making Hong Kong important in the economy of Asia as well as the world.

To give a more concrete picture of Hong Kong's economic development and its position, the following are some important facts and simple figures in relation to production, trade and banking:

Production

Using the gross value of output as measurement, the rate of Hong Kong's economic growth was second only to Japan in Asia. Calculating on the basis of variable prices, growth roughly doubled in the 1950's, was up roughly 2-fold in the 1960's, and was up more than 4-fold in the 1970's. Deducting the factor of price inflation, the growth rate was still remarkable. For instance, looking at constant prices, the per capita gross output value has increased over 4-fold in the 20 years from 1961 to 1980. Its speed ranks first in the world.

Trade

According to the materials of the British officials in Hong Kong, from 1947 to 1983, the annual progressive growth rate of Hong Kong's foreign trade was 14.26 percent, while that of the world was only 10.2 percent. In terms of per capita foreign trade volume (including transit trade), in 1983, it was as high as \$8,652 in Hong Kong, which was only lower than Singapore, while it was only \$2,220 in Japan, \$2,442 in Taiwan Province, and \$1,267 in South Korea. The United States, England, France and the FRG all lagged far behind Hong Kong. In terms of the per capita export amount, not counting the several petroleum exporting countries (the United Arab Emirates, Kuwait, Saudi Arabia and Libya), Hong Kong is the fifth in the world at present.

A series of commodities in Hong Kong rank first in the world in terms of export amount and export volume:

In 1972, Hong Kong ranked first in the amount of toy exports, surpassing that of Japan.

In 1973, Hong Kong ranked first in the amount of garment exports, surpassing that of Italy.

In 1978, Hong Kong ranked first in the volume of wrist watch (including electronic watch) exports, surpassing that of Switzerland and Japan.

In 1982, Hong Kong ranked first in the world in the volume of clock (including electronic clock) exports.

In addition, Hong Kong also ranked first in the world in the volume of radio exports, and ranked first in the world in export volume and export amount of candles, flashlights, plastic flowers, metal watch bands, button batteries and work gloves.

Banking

Since the 1970's, Hong Kong has formed a gigantic banking system with the commercial bank as the core and including financial companies (savings companies) and insurance companies, and gold, foreign exchange, stock and commodity forward markets. This system has played an important role in the economic activities of Asia and the Far East Region. The newspapers and journals in Hong Kong and Macao claimed that Hong Kong was the world's third largest monetary center after New York and London. In order to prevent the excessive infiltration of foreign capital into local industries, the Japanese Government has placed more restrictions on the capital market. In recent years, although it has expanded the extent of freedom of the capital market as a result of pressure from the United States, it has no intention to contend with Hong Kong for the position of an international monetary center. The following facts will sufficiently show that Hong Kong is indeed an important international monetary center:

Hong Kong is the city in the world with the highest density of banks and insurance companies. Almost all the world's famous large banks have set up their organ of highest command in the Pacific and Asian regions in Hong Kong. By March 1983, the banking circle in Hong Kong constituted 56 percent of the gross amount of loans of overseas capital circulation. This shows that Hong Kong has already become the fund-collection center for the international loan market. Hong Kong is one of the 10 largest stock markets in the world. Although Hong Kong is not yet the Asian center for the dollar like Singapore, yet, in recent years, Hong Kong has been handling roughly \$2 billion daily in overseas foreign exchange transactions involving the dollar. Transactions involving the Japanese yen handled by Hong Kong are only second in scale to Tokyo. Exchange transactions involving the German Mark handled by Hong Kong constitute roughly half of those of the Southeast Asian region. Because of time differences, the schedule for opening quotation and closing quotation on the exchange in Hong Kong ranked up well with those of the United States and London. In addition, contact through telecommunications was extremely convenient. Thus, Hong Kong became a gold market which was capable of handling round-the-clock transactions.

The following is an analysis of the subjective and objective reasons for the rapid development of Hong Kong's economy and trade and the increasing importance of Hong Kong's position:

A. Superior Geographical Location and Relatively Stable Political Status

Hong Kong is situated at the hub of sea and air communications between the East and West, and is situated at the center of the four important economic zones of the Asian and Pacific region, namely, mainland China,

Northeast Asia (Japan, South Korea), Southeast Asia, and Australia and New Zealand. Victoria Harbor, deep and wide, is one of the three largest natural harbors in the world. In addition, it has modernized harbor facilities. Thus, Hong Kong has become the world's seventh largest commercial port (in terms of ship loading and unloading capacity).

Compared to Indochina, Indonesia, the Philippines, Burma and Thailand, the political status of Hong Kong has all along been relatively stable, which helps attract investment and develop the economy.

B. The Economic System of a Free Port Has Provided a Favorable Environment for Investment

As a free port, the Hong Kong Government imposes supervision only on public works and adopts a policy of non-Intervention regarding industry and commerce, thereby allowing the market mechanism to take effect freely. In respect to imports, customs taxes are imposed only on tobacco, alcohol, methanol and finished oil products. Import-export licenses are necessary only for dynamite, strategic materials and rice, coal and precious metal. Because Hong Kong takes part in relevant international agreements, it must shoulder the stipulated tasks. Thus, it also must issue import-export licenses for textile products. Other than the above, there is freedom in all import and export activities as well as in foreign exchange purchase and sales and the transfer of funds in and out.

At present, the profit taxes (for limited companies) and income taxes for individuals in Hong Kong are higher than the past, at 18.5 percent and 17 percent, respectively. However, they are still lower than others in the Asian and Pacific region. The interest tax on foreign currency deposits has been abolished, while the interest tax on Hong Kong currency deposits has been lowered to 10 percent.

A free and laissez-faire system and low tax rate have stimulated capitalist economic activities. In addition, a favorable environment for investment has been brought about through political stability as well as the following three respects of legislation, information and the infrastructure:

1. Legislature: Hong Kong's legislature is revised from the British blueprint in light of the situation in Hong Kong. As an old-time capitalist country, the relevant economic and trade laws of England are well known and respected by international legal circles. As a result, the relevant laws of Hong Kong are also easily understood and accepted by the interantional industrial and commercial circles.

2. Information: Hong Kong's economy relies heavily on the international market. Thus, the collection, transmission and feedback of international economic and trade information should be extremely fast and sensitive. In addition to such organizations as the banks and the consulting companies as well as all types of specialized newspapers and journals, the "Hong Kong Trade Development Bureau," a semiofficial organ, also plays a major role in providing the necessary information. This organ is responsible for organizing and promoting overseas advertising and propaganda, exhibitions and so forth. It also provides all kinds of useful information. Every day, it receives over 20,000 cables and letters from at home and abroad asking for information. In all the major commercial ports in the world, it has set up offices, which handle daily information exchange and collect and send information to the general headquarter in Hong Kong.

3. Infrastructure: Hong Kong's telecommunications and sea and air transport facilities are among the most advanced in Asia. In 1983, there were 15.7 million international phone calls made in Hong Kong, with an average of some 43,000 phone calls per day. Of these, 11.7 million were direct calls (that is, without station connection). At present, direct calls can be made to 125 cities in the world. However, for a long time, Hong Kong could not make direct calls to the hinterland. Only recently have direct in lines been established and used between Hong Kong and Guangzhou.

Hong Kong is Asia's shipping center. It has already opened up over 90 shipping routes. There are 256 licensed shipping companies in Hong Kong, with a total of 1,097 ocean liners and 2,070 barges. In 1983, the loading and unloading capacity totaled 37.09 million metric tons. The Kуйong container pier is famous throughout the world. The average loading and unloading time for ordinary goods in Hong Kong is 2 days, while that of containerized goods is only 13 hours. The average turnover time of foreign cargo liners in the harbors in the hinterland is more than 7 days.

Hong Kong is the second largest aviation port in the Far East. Over 50 airline companies have set up branch companies in Hong Kong. There are 35 scheduled flights, with 150 flights every day. In 1983, air cargo totaled 386,000 metric tons. Cargo claims were convenient, and can be handled in 1 to 3 hours.

C. Active Participation in the International Division of Labor, Realization of "Survival of the Fittest" Through Market Mechanism, and Continuous Improvement of Adaptability to the International Market

As a tiny area, Hong Kong must rely on the international division of labor to survive and develop. However, Hong Kong enjoyed no superiority in respect to primary products of agriculture, forestry,

animal husbandry, fishery and mining. Also, it is unable to develop heavy industry. The only alternative is a manufacturing industry that involves assembly and processing of imported raw materials. The key to survive and develop in the midst of acute international competition for this kind of manufacturing industry lies in having a sensitive response to changes on the international market and readjusting one's production and sales tactics without delay so as to continuously improve one's adaptability. This flexibility and adaptability are formed through protracted and harsh competition and the "selective" process of the survival of the fittest. The manufacturing industry of Hong Kong primarily involves medium-sized and small factories. According to the 1982 statistics, a factory has an average of 20 workers. However, there is a close relationship of specialization and cooperation among these factories. These factories involve small investments and a short recovery period. They enter into production rapidly and switch production tasks rapidly too. They are as easily built as they are closed down (according to Hong Kong British law, one can apply for a business license with HK\$350). In terms of production, "small batches" and "diverse designs and colors" can be attained. These are all important factors that strengthen the adaptability of Hong Kong's manufacturing industry.

Problem Which Hong Kong Faces in Economic Development in the 1980's

Although its economy has developed rapidly, yet, due to the changes in internal and external factors, Hong Kong is faced with new problems and difficulties in the 1980's:

1. With the Emergency of Protectionism of All Countries, the Export of Hong Kong Products Has Encountered the Wall of Trade Which is Raised Higher Day by Day

The structure of commodities for export in Hong Kong is rather concentrated on the four major categories of textile products and garments, electronics, plastic ware, and watches and clocks, which together constitute roughly 70 percent of the gross amount of export of Hong Kong products. Textile products and garments alone constitute roughly 40 percent. Also, Hong Kong relies too heavily on the economically developed countries for a market for exporting Hong Kong products. In 1982, the four countries of the United States, England, Japan and the FRG take in 58.6 percent of the gross amount of export of Hong Kong products. Based on the above-mentioned situation, under the current trend of the increasing trade protectionism of the developed countries, Hong Kong is faced with increasing difficulties with regard to its export and economy. This fine opportunity of "freedom of development" of the 1960's has died away. One example is the assault on Hong Kong's economy by the new regulation in the United States concerning identification of place of production origin for textile products.

2. Rise in Wages and Land Value, and the Increasing Pressure of Competition on Hong Kong Products from the Other Asian Countries and Regions

In the past, with relatively low wages and relatively good labor quality, Hong Kong enjoyed superiority in the area involving labor-intensive products. Currently, however, the wages in Hong Kong, already higher than Singapore, are second only to Japan in Asia. Thus, it is losing its superiority. At the same time, the high land value in Hong Kong is rarely seen in the world. Since the 1970's, whenever exports double, the value of land for industrial use generally rises three-fold. Thus, Hong Kong products are suffering from increasing pressure of competition from Singapore, South Korea and Taiwan Province.

3. In the Midst of Worldwide Inflation, Import Prices for Raw Materials and Energy to Hong Kong Continue to Rise, Thereby Increasing the Cost of Hong Kong Products

Hong Kong must rely on import of most of the energy resources, raw materials and food which it requires. The value of imported raw materials constitutes a very large percentage of production cost. For instance, according to the statistics of the Hong Kong British authorities, in 1980, the cost of raw materials, semifinished products and industrial service constitutes roughly 67 percent of the gross value of industrial output. The worldwide inflation has caused the prices of imported energy resources and raw materials to rise daily (which the Hong Kong newspapers and journals refer to as "imported monetary inflation"). Together with other internal reasons in Hong Kong, the production cost of Hong Kong products has continued to increase.

The above represents the problems from the angle of exports which Hong Kong is faced with in its economic development. Now, we will take a look at the changes in its internal economic structure.

In the late 1970's, a fervor in real estate speculation appeared in Hong Kong. Land prices became higher and higher. The Hong Kong British authorities, of course, encouraged a policy of high land price in order to reap huge profits. The average official sales price of the land for industrial use in 1979 was 132-fold more than that of 1959. This speed of inflation is rarely seen in the world. This fervor in speculation has greatly lashed at industry. Large funds have been attracted to real estate speculation, thus greatly affecting industrial investment. Some capitalists in the textile industry have closed down their factories, torn down their buildings and sold their land. They have built buildings for rent and sales, since this yields a greater profit than textile production. Between 1978 and 1983, 14 cotton textile mills have done the above. The mirage created by real estate speculation has also stimulated an abnormal prosperity of the consumer industry. The Hong Kong newspapers

and journals calls this "internal excessive enthusiasm in consumption." Between 1978 and 1983, Hong Kong's industrial investment dropped and remained jaded for 5 years. Although one reason was the worldwide economic crisis, the other reason was the fervor in real estate speculation. As a result, industrial production has been weakened, the economic structure has become more unbalanced, monetary inflation has intensified, and the rate of growth in exports has for years on end lagged behind that of imports. The surplus from invisible trade is no longer able to make up for the daily increasing deficit from visible trade. Thus, the industrial and commercial circles in Hong Kong demanded readjustment. In the late 1970's, the authorities also proposed "economic plurality" and published long reports advocating the shift from labor-intensive industries to industries with capital and high-tech as the key. They also tried to maintain Hong Kong's position as an international monetary center.

In the last 30 or more years, the rapid development of Hong Kong's economy is impossible without support from the hinterland. In the future, the question of the plurality of Hong Kong's economy still relies on help from the hinterland. Informed personnel in Hong Kong and Macao are seeking cooperation and support from the **hinterland**. Thus, this is a fine opportunity to launch economic cooperation with Hong Kong. Under the guidance of correct principles and policies, we will definitely attain positive results.

II. Hong Kong's Clothing Exports

Hong Kong's clothing exports rank first in Hong Kong's export trade. According to the statistics of the Hong Kong British authorities, in 1983, the export of clothing made in Hong Kong totaled HK\$33,102,000,000, constituting 85 percent of the gross value of exports of textile products made in Hong Kong, which was HK\$39,106,000,000, and constituting one-third of the gross value of exports of products made in Hong Kong that year, which was HK\$104.4 billion. Thus, we can see that clothing exports occupy an important position in Hong Kong's economy and have a decisive influence on the development of Hong Kong's economy.

Since 1973, with the exception of 1977 and 1978, Hong Kong has held first place in clothing exports in the world's clothing trade and has become the world's largest region for clothing exports. Hong Kong's clothing exports have had a major impact on the world's clothing trade.

A. The Rapid Development of Hong Kong's Clothing Export and the Major Reasons Behind It

In 1956, the value of Hong Kong's clothing exports was HK\$400 million. In 1965, it increased to HK\$1.7 billion. In 1975, it was as high as HK\$9.4 billion. In 1983, it jumped to HK\$33.1 billion. Compared to 1956, the value increased 82-fold in 1983, showing an extremely rapid development.

The rapid development of Hong Kong's clothing exports has enabled Hong Kong's clothing industry to expand rapidly into Hong Kong's largest industrial sector. According to the statistics of the Hong Kong British authorities, by the end of December 1983, Hong Kong already had 9,034 garment factories, constituting 87 percent of the total number of factories in the textile industry throughout Hong Kong, which was 12,900 factories. There were 280,000 workers, constituting 35 percent of the 800,000 workers in the manufacturing industry in Hong Kong. The development of the clothing industry has also promoted the corresponding development of the textile and printing and dyeing industries.

There are two major characteristics in Hong Kong's clothing exports:

1. Development in the Direction of High Quality and Fashion

In order to stand up to the daily intensifying competition and to meet the needs of international clothing consumption, Hong Kong's clothing exports are developing in the direction of high quality and fashion. In the 1950's and 1960's, Hong Kong's clothing exports centered around medium- and low-grade products. Since the 1970's, with the improvement of the level of consumption of the major capitalist countries, it has rapidly changed to concentrating on medium- and high-grade garments. Through renovating facilities, importing new techniques and new technologies, and improving production efficiency, high-quality products have been rapidly developed for export. For instance, women's clothing with fashion as the key has constituted half of all clothing exports. The export of real silk garments, which are of high price, has developed on a relatively large scale. In 1983, the value of exports was as high as \$350 million. Clothing of high quality and fashion has accordingly made higher demands on material.

2. The Export Market is Concentrated on the European and American Developed Capitalist Countries

Hong Kong's clothing exports are concentrated on the United States, the European Common Market, Australia, Canada, Sweden and Switzerland. Of this, the clothing exported to the United States, England and the FRG constitutes 60 percent. Thus, the economic and trade situations and relevant policies of the western countries, especially the United States, England and the FRG, have extremely major impact on Hong Kong's clothing production and export.

Objectively, the reasons for the rapid development of Hong Kong's clothing export are: Hong Kong's specially favorable geographical location, position as a free port, superior harbor, pier and communications factors. But primarily, it is because Hong Kong has a larger export quota from Europe and America. This is a unique

superiority of Hong Kong's clothing exports and the basis for Hong Kong's becoming the world's largest clothing export area. Because of the early development of Hong Kong's clothing exports, the shift abroad of the labor-intensive products of the developed countries, the flexibility in business involving Hong Kong's clothing industry, and the ability to rapidly adapt to changes in demand for clothing of the developed countries, Hong Kong's clothing industry was able to hold on to a large quota from Europe and America. For instance, Hong Kong constitutes 70 percent of the export quota given by the United States to our hinterland, Hong Kong, Taiwan Province and South Korea. This is an important external factor for the rapid development of Hong Kong's clothing exports.

Subjectively, Hong Kong's clothing industry has advanced business management. This is manifested in: 1) Importing without delay advanced techniques and new technology, renovating old facilities and improving production efficiency. 2) Emphasizing "winning with quality," and putting effort on face material and subsidiary materials, rapidly making the clothing for export that of high quality and fashion. 3) Having small factories and few workers, thus allowing for flexibility and high adaptability. On the average, each garment factory has under 30 people. The initial order is small. Production can be in small quantities and diverse varieties, thus meeting the needs of the continuous changes in style. 4) Having flexible and diverse business modes, allowing for delivery of goods punctually and rapidly. 5) Attaching importance to propaganda and popularization and vigorously training skilled personnel. Every year, Hong Kong holds a fashion festival for the purpose of replacing the old with the new and exchanging experiences. Also, it often organizes garment factory owners to attend all kinds of exhibitions abroad. At the same time, Hong Kong attaches special importance to clothing design. At present, it has become the fashion design center in the Far East and Asian regions.

B. Export of Textile Products From the Hinterland to Hong Kong

With the development of our country's textile industry, the hinterland is gradually increasing its export of textile products to Hong Kong. The growth has been faster especially in recent years. According to the statistics of the Hong Kong British authorities, in the 1960's, the hinterland supplied roughly HK\$500 million of textile products every year. In 1973, for the first time, it went beyond HK\$1 billion. In 1978, it was more than HK\$2 billion. In 1979, again, it was more than HK\$3 billion. After that, it developed rapidly. By 1983, it was HK\$14,768,000,000 (roughly \$2,208,000,000). The Hong Kong British authorities figured the total value of the processing of imported materials, which was higher than the gross value of the imported goods. The General Company's statistics showed \$1,403,000,000), which constituted 44.6 percent of Hong Kong's import, surpassing Japan as of 1979 and occupying the number one position.

The textile products supplied by the hinterland are primarily used in transit trade. The 1983 statistics showed that a total of HK\$7.1 billion was obtained in transit trade through Hong Kong (\$1,055,000,000), 48 percent of our imported goods and 60 percent of the textile products in transit trade through Hong Kong. Secondly, we supply Hong Kong's consumption for production purposes. The value for 1983 was roughly HK\$5.2 billion (\$780 million), 35 percent of the goods supplied by us and 30 percent of the gross amount of sales of this category in Hong Kong. Thirdly, we supply the consumption for livelihood, that is, supplying the direct consumption locally. These are primarily garments and finished products, with a value of roughly HK\$2.5 billion (\$373 million), 17 percent of our imported goods and roughly 40 percent of the sales of this category in Hong Kong.

The major characteristics of our supply of textile products to Hong Kong are as follows: The products are primarily simple processed items and medium- and low-grade products with low sales prices. Among the textile products supplied by the hinterland to Hong Kong, roughly 50 percent are finished products, such as yarn and bolts of cloth, and roughly 50 percent are finished products and garments. Among the various kinds of bolts of cloth, which constitute 35 percent of the gross value of textile products supplied by the hinterland to Hong Kong, grey cloth constitutes roughly 60 to 70 percent. Among the various kinds of silks and satins, grey silks constitute roughly 80 to 90 percent. Among the finished products, the popular product of dependable quality is the key, with very few goods of different designs and colors. Thus, the average unit price of our goods is generally lower than the average unit price of a similar category of varieties imported to Hong Kong. For instance, among the 200 varieties of our goods which have quantifiable statistics, only 30 have prices that match the average unit price of goods imported to Hong Kong, while 170 varieties are below the average unit price of import. There are many reasons why the sales prices of our goods are lower. For instance, the long production cycle of our products, the lack of punctuality in the delivery of goods, the big initial orders of certain varieties and the inadequacy in bringing forth new things all affect good sales prices. The most primary reason is having too many factories which are engaged in the same undertaking, resulting in competition among ourselves and price-cutting in order to compete with one another in sales.

In the future, to further expand the export of textile products from the hinterland to Hong Kong, we should consider the following problems:

1. We must change from winning with quantity to winning with quality.

In recent years, the supply of textile products by the hinterland to Hong Kong has developed very rapidly, primarily by relying on the growth in quantity. However, the capacity of the Hong Kong market is limited and the increase in quantity is always limited. In the

future, in exporting to Hong Kong, we must maintain quantitative superiority in the popular product of dependable quality, consolidate our battlefield, and continue to expand the sales of those varieties which constitute a small percentage or are in short supply on the market, and fill the gap accordingly. Furthermore, we must put our emphasis on "winning with quality."

2. In management, we must improve the adaptability of the existing varieties and the planning in goods supply.

The improvement of the adaptability of the existing varieties is primarily manifested in quality and quality specification. In terms of quality, we must solve such problems as inadequate weight, uneven streaks and excessive defects of cotton; poor post-treatment of colored and patterned cotton cloth, large amount of shrinkage and poor color; and declining workmanship. In terms of quality specification, we must increase open-end spinning of coarse hank yarn, colorful real silk, and wide cloth in light of the need of the Hong Kong market. In terms of garments, we must increase the export of colorful goods which suit young people, increase fashion wear and knitted jackets. Thus, we must correspondingly renovate the facilities of our printing and dyeing factories and garment factories.

At the same time, we must strengthen our planning in the supply of goods to Hong Kong. We must change our previous method of taking care of the faraway places before taking care of Hong Kong and Macao, and must supply goods in an even manner, quote good sales prices, and control goods supply involving semifinished products to Hong Kong, so as to prevent supply over demand and self-competition.

In respect to exporting garments to Hong Kong, under the prerequisite of improving quality and increasing styles, we must increase the quantity of exports by increasing diverse channels, so as to rapidly change the situation of demand over supply.

3. We must be more flexible in our method of work, improve our service factors and deliver goods on schedule.

C. The Impact of the New Regulation of the United States Involving the Import of Textile Products and Relevant Countermeasures

As of 7 September 1984, the U.S. Government has implemented a new regulation asking for place of production origin for textile products: Hong Kong will no longer qualify for the place of production origin if a product undergoes the following four processing procedures in a place other than Hong Kong: 1) simple combination and packaging procedure; 2) the procedure of putting together the made parts by machine sewing, joining or other methods; 3) such procedures as

cutting or separating the cloth that is originally printed for cutting; 4) other procedures involving dyeing and printing. This is a discriminatory regulation. Its core is to demand that all the textile products and garments imported to the United States be completed in one country or region and exported to the United States from there. Otherwise, the U.S. Customs will not examine and approve the goods.

Over 28 countries and regions, most of which are Third World countries, are adversely affected by this new regulation of the United States. Hong Kong is the primary victim. This is because Hong Kong constitutes a large quota in exporting textile products to the United States. Yet, in the eyes of the Americans, the "process of completion" in the production of textile products and garments for export of Hong Kong does not conform to the requirement of the new regulation. Singapore, Taiwan, South Korea and Malaysia are affected minimally or not at all.

If the above new regulation is implemented, Hong Kong's economy will suffer a severe blow. The Hong Kong British authorities estimate that the implementation of the new regulation will reduce the gross value of sales of Hong Kong's textile products to the United States by \$300 million every year. The Hong Kong businessmen involved in the export of resources estimate that it will actually be \$500 million and will affect 40,000 to 50,000 workers, thereby bringing very great difficulties to Hong Kong's economy.

In essence, the new regulation of the United States is also aimed at the export of textile products from the hinterland of China. This is because 1983 statistics show that among the textile products exported to Hong Kong from the hinterland of China, 48 percent were transit goods while 35 percent were exported after processing by the textile trades in Hong Kong. At present, over 20 factories in Hong Kong are involved in providing textile raw materials and semifinished products for the textile mills in the hinterland for primary processing before these products are shipped back to Hong Kong for manufacturing into finished products for export. There are also many cases involving setting up factories in the special economic zones /SEZ's/ and the hinterland for primary production and shipping the semifinished products through direct links back to Hong Kong for processing for export. Implementing the new regulation, the United States will deal a heavy blow to Hong Kong's textile links. It will create an unfavorable impact on the compensation trade and processing of imported materials involving textile products of the SEZ's of the hinterland and other regions near Hong Kong. It will be extremely unfavorable to our country's textile industry. For instance, our embassy in the United States has pointed out in a letter of protest to the U.S. Government: This regulation has obviously violated the spirit of the trade agreement between China and the United States and the fundamental principle of the common consultation

in the polyfiber agreement. The new regulation of the United States will affect several hundred factories and over 60,000 workers in the southern part of China, and will deal a severe blow to China's industry, employment, trade and economic development.

III. Hong Kong's Electronics Industry

Hong Kong's electronics industry began in 1959. At that time, in order to contend for the market for electronic products, the United States restricted the import of Japanese transistor radios. This compelled Japan to invest in and set up factories in Hong Kong, since by doing so, it could utilize Hong Kong's cheap labor and bypass the trade barrier of the United States. Because of the broad profit margin, it stimulated the industrial and commercial circles of Hong Kong, which began to set up factories accordingly. In 1959, two transistor radio assembly factories emerged in Hong Kong. Through rapid development in the 1960's, by 1972, the electronics industry ranked second after the clothing industry in Hong Kong's manufacturing industry. By the end of 1983, there were 1,351 factories in the electronics industry in Hong Kong, constituting 3 percent of the total number of factories in Hong Kong's manufacturing industry. These factories employed 94,631 workers, constituting 11 percent of the total number of workers in Hong Kong's manufacturing industry. The value of exports totaled some HK\$18.5 billion (with an average of nearly HK\$200,000 per worker), constituting 17.8 percent of the gross value of export of Hong Kong's products. It is estimated that the value of exports for 1984 will total more than HK\$20 billion. Many people in the industrial and commercial circles in Hong Kong maintain that there is a very great potential for the development of electronic products, which may surpass that of the clothing industry in the near future. Thus, we can see that the electronics industry has already become a major industrial pillar which maintains the prosperity of Hong Kong's economy.

Foreign capital has constituted a very large percentage of Hong Kong's electronics industry. In Hong Kong's manufacturing industry, the clothing industry ranks first in both the value of production and the value of export. However, the electronics industry far surpasses the clothing industry and occupies first place in attracting foreign capital. In 1983, over HK\$7.8 billion of foreign capital was invested in Hong Kong's industry. Of this, some HK\$2.8 billion was invested in the electronics industry, which constituted roughly 36 percent, occupying first place. At present, there are 78 electronics factories with foreign investment (including sole investment and joint investment), half of which use U.S. capital.

Since the 1960's, with the large influx of foreign capital, Hong Kong's electronics industry has developed rapidly. From 1964 on, television and electronic articles for military industrial use have been produced. Products have become diverse and quality has also improved. Since the 1970's, large-scale integrated circuits have been increasingly used in the manufacture of computers. The structure of electronic products in Hong Kong has also been further enriched. In particular, it has become increasingly closely tied in with the clock and watch and toy industries. This is an important contributing factor to putting Hong Kong in a favorable competitive position on the world market in regard to toys and clocks and watches. Furthermore, the expansion of the export of toys and clocks and watches has further promoted the development of Hong Kong's electronics industry. Since the 1970's, radios, electronic watches and electronic clocks in the electronic products of Hong Kong have successively become first in the world in the volume of export.

Most of the electronic products in Hong Kong are sold abroad. A very limited volume is sold locally. The United States has all along been the most important market for export. West Germany and England rank second, but the sales volume there is far below that of the United States. The third is Southeast Asia and the Middle East region. Toward the end of the 1970's, the export of radios, cassette tape recorders, electronic calculators and electronic watches from Hong Kong to the United States was 38 percent, 52 percent, 46 percent and 36 percent, respectively. In 1983, the United States constituted 51 percent of the gross amount of exports of electronic products from Hong Kong, while West Germany and England constituted 7 percent and 6 percent, respectively.

In terms of the categories of export, since the 1960's, acoustic products have all along been the largest category, but in percentage there is a downward trend. This is because, with scientific and technological progress and the ever-renewing electronic products, Hong Kong has worked hard to bring about diversity of products in light of the needs of the world market. Electronic clocks and watches developed very rapidly in the 1970's, currently, they are ranked second in export volume, very close to that of acoustic products. Electronic games (including videogames) have suddenly come to the fore toward the end of the 1970's. Currently, they rank third in export volume, and are equivalent to 40 percent of that of acoustic products. (Please see the following table.)

Amount of Exports of Hong Kong's Electronic Products for 1982

Unit: HK\$1 million

	Export Amount	Percentage
Acoustic products	53.65	30.8
Electronic clocks and watches	50.48	29.0
Electronic games	21.20	12.1
Computer parts	16.42	9.4
Semiconductors	13.19	7.6
Miscellaneous items	19.33	11.1
Total	174.27	100.0

Once again, looking at the specific varieties of the various major categories, of acoustic products, radios have all along been the biggest export item. However, entering into the 1970's, cassette radio-tape recorders have gradually enjoyed superiority and have ranked first in export volume, finally surpassing radios. In recent years, the Walkman became popular, however, since 1983, it has displayed a downward trend. The export of clock radios has grown very rapidly, now ranking third in the export of electronic acoustic products in Hong Kong. However, the U.S. market is displaying an increasing demand for the "bedside machine" that combines the radio, the electronic alarm clock and the telephone. Thus, the export of electronic clock radios may drop.

Among the electronic watches, although the digital watch still ranks first today in export volume, fierce competition has brought down its sales price. Hong Kong manufacturers are day by day switching from producing integrated circuits for watches to integrated circuits for telephones. In recent years, the rate of growth for the export of pen watches has remained very high. The export value for 1982 was up 135.6 percent compared to 1981. However, due to fierce competition, and also to the fact that its style and structure resemble the U.S. "Cross" ballpoint pen, leading to a suit brought by the U.S. company, it is estimated that production and sales will also decline. Currently, the export of quartz electronic watches is prosperous, with export volume for 1982 up 25 percent compared to 1981.

In recent years, the export of electronic games has grown rapidly. In 1982, it totaled HK\$2.12 billion. The speed of growth was faster than both the radio-recorder and radio. Also, continuous improvement has been made in style and function. One important reason for the development in this respect is because some U.S. factories, in order to lower cost, have set up factories in Hong Kong and Taiwan to manufacture the product.

Ninety percent of Hong Kong's exported computer fittings go to the United States, many of which are manufactured in factories set up with American capital. There are not many factories in Hong Kong, however, that have the capability to manufacture computer fittings. In addition, among the other electronic products exported by Hong Kong, telephone sets are expected to experience substantial development.

The establishment and development of Hong Kong's electronics industry rely primarily on the international market for both the sources of raw materials and sales of products. In reality, it is an industrial sector which involves primarily export for sales, assembly and general electronic items for daily use. Although it has developed very rapidly in the last 20 years, yet, because such places as South Korea and Taiwan are also able to produce general electronic products for very low cost, Hong Kong's electronic products are meeting increasing competitive pressure, and are compelled to lower sales prices. For instance, while the volume of sales abroad involving quartz watches for 1982 continued to increase, the average sales price dropped by one-fifth compared to 1981. Again, for instance, the electronic games, which have all along been popular, have encountered a saturated U.S. market. The sales price for 1984 has dropped markedly compared to 1983. Thus, Hong Kong's electronics industry will encounter a greater challenge in the 1980's. The industrial and commercial circles in Hong Kong maintain that the approach to winning a victory will primarily be to readjust the product structure, accelerate upgrading and updating, improve quality, lower cost and develop in the direction of varieties involving high-level science and technology. However, to realize this goal, we must resolve the following existing problems step by step:

1. Shifting toward high-level scientific and technological development, we must have large amounts of investment. However, in Hong Kong's electronics industry, over 80 percent are medium-sized and small factories, and are obviously unable to do anything in light of the high interest rate at present. Although the large factories can issue stocks to collect funds, the stock market in Hong Kong this year has been slack. Furthermore, the stocks for the electronics industry have been dropping, an extremely unfavorable situation for introducing new stocks to the market. If we follow the old path of relying on investment by the United States and Japan, then we will further deepen the dependence of Hong Kong's electronics industry on foreign capital.

2. Shifting toward high-level scientific and technological development, we must have a group of high-level technological personnel who are capable of handling research and development. In a recently published report, the vocational training bureau of the Hong Kong British Government claimed that the demand for

electronic technical personnel in Hong Kong is growing at a rate of 80 percent every year. In reality, we are far from satisfying that demand. Thus, a serious lack of technical personnel has already become a protracted problem. One reason is that many electronic technical personnel who were trained by the institutions of higher learning in Hong Kong have gone to Europe and America to continue their education and have remained in Europe and America to work. Also, there are some people who are unwilling to be involved in scientific research, and who seek development in business involving industry and commerce.

3. There are certain difficulties in respect to raw materials, labor force and land for building factories. The rate of self-sufficiency for parts required by Hong Kong's electronics industry only constitutes roughly 10 percent, the rest relies on export. In 1983, Hong Kong imported a total of HK\$15.32 billion in electronic parts. Of this, 31 percent was from Japan, and 28 percent from the United States. This is no doubt a hidden trouble which Hong Kong's electronics industry is faced with under the current circumstance of a worldwide shortage in the supply of electronic parts. Furthermore, in order to protect the interests of their own industries, the United States and Japan oftentimes are reluctant to export electronic parts involving high-level science and technology. This means that in order to readjust varieties and upgrade and update products in the future, Hong Kong's electronics industry is still faced with the problem of how to solve the source of precise and large-scale integrated circuits. In addition, although labor productivity for Hong Kong's electronics industry is relatively high, the mobility of its labor force is also great. Wage scales land prices and rents are also higher than South Korea and Taiwan. Thus, Hong Kong is losing its superiority in these respects.

For this purpose, the Hong Kong British authorities have put forth 10 propositions in the recently-published "Study Report on Hong Kong's Electronics Industry. These primarily included: Setting up a series of organizations for developing electronic science and technology, such as, a laboratory for electronic scientific and technological development, a center for the technology of computer manufacture, a risk investment company and a development committee for the electronics industry; as well as a series of measures for opening up the market, such as improving market capacity, opening up local markets, inspecting the situation of the electronics industry at fixed intervals, and improving the relationship among the electronics factories. These 10 propositions are published at a time when Hong Kong's electronics industry is faced with more and more obvious difficulties and are, therefore, rather welcomed by industrial and news circles. However, if Hong Kong's electronics industry was able to develop rapidly in the past because of its high production efficiency and strong adaptability, then, whether or not it can surmount the difficulties and develop further will depend on how it resolves the above-mentioned problems.

IV. Hong Kong's Toy Industry

A. Hong Kong's Toy Production and Trade

Hong Kong is currently the largest toy-exporting region in the world. The toy manufacturing industry has become one of the four major pillars (the others being clothing, electronics and clocks and watches) of Hong Kong's manufacturing industry. In 1983, Hong Kong exported a total of HK\$8.8 billion of toys. It is estimated that it will reach HK\$10 billion (roughly \$1.5 billion) in 1984. In 1982, there were 2,206 toy manufacturing factories in Hong Kong, employing roughly 150,000 workers, constituting 9 percent of the number of people employed in the manufacturing industry in Hong Kong.

Hong Kong's toy manufacturing industry developed extremely rapidly from nothing to something and from a small scale to a large scale. In the 1940's, Hong Kong had only a few workshops which were involved in producing some clay, wooden and cloth toys. They did not constitute an independent industry. In the 1950's, with the development of plastics production, plastics were used in toy manufacture and a large volume of plastic toys emerged. This was the beginning of Hong Kong's toy industry. In recent years, the electronics industry, remote-control technology and the microcomputer have developed and have been introduced into the toy industry, thereby expanding the variety of toys (currently there are 1 million varieties of toys). The value of toy output has increased by a wide margin. In 1956, the value of toy output in Hong Kong was HK\$27 million; in 1972, it was HK\$1.3 billion, already surpassing that of Japan and occupying first place in the world in the export of toys. In 1983, the value was HK\$8.8 billion; this year, it will go beyond HK\$10 billion. The speed of development of Hong Kong's toy industry is unmatched by any other regions.

In Hong Kong, 95 percent of the toys produced are exported, with the primary targets being the United States and Western Europe. In recent years, the United States has imported roughly \$1.4 to \$1.5 billion of toys every year, 75 percent of which has come from Hong Kong and the rest from Taiwan Province and South Korea. Toys are labor-intensive products. Thus, those countries with high wage scales, such as the United States and Western Europe, have shifted the production of toys to the developing countries and regions, and have imported toys primarily from such regions as Hong Kong, Taiwan Province and South Korea in Asia. Although wages in Hong Kong are higher than Taiwan and South Korea, the technological level is also higher.

B. The Reasons for the Rapid Development of Hong Kong's Toy Industry

We feel that the following are the primary reasons why Hong Kong can, in a short period of time, become No 1 in the world in the export of toys:

Objective Reasons:

1. Being a free port, Hong Kong can import freely and customs-free all kinds of raw materials, such as metal, plastics, wood, cloth, electronic parts and spare parts, required by the toy industry. Also, Hong Kong provides a market for free competition. Therefore, the toy industry can obtain raw materials at very low prices. In addition, convenient transportation and rapid and punctual delivery of goods are favorable to production by the toy industry.
2. There is a complete and coordinated set of cooperative systems. Hong Kong's toy industry does not go for a "large and comprehensive" setup. Generally, a factory occupies one or two stories of space in an industrial building and employs several dozens of workers. The factory owners are knowledgeable in their business. Based on the market news and the new trends of toys in the world, they put forth "ideas" that meet the needs of the market. Then, they hire a few designers to propose design programs. After selection, they decide on a few new designs and manufacture models of them, which they send to the United States and other countries in Europe to solicit orders. Then, on the basis of the quantity of order, they carry out production. There are all kinds of specialized factories which are involved in making materials for external and internal packaging and printing materials for packaging. These factories take the initiative to solicit business. Then, according to contract, they guarantee delivery of goods on schedule and with quality. This whole set of cooperative systems formulated on the basis of the market mechanisms has guaranteed the toy industry's ability to carry out production flexibly according to the needs of the market.
3. Internally, a toy factory has a set of highly efficient systems of management. Under the factory owner, there is a "section chief" in every workshop or production line. The section chief supervises the workers, on the one hand, and participates in labor, on the other. The workers' working hours are recorded by an electronic time device. Each worker has a time card which he or she punches when he or she arrives and departs work. The accurate time of arrival and departure is indicated. Late arrival and early departure involve wage deduction. The factory owner can dismiss ("fire") an incompetent worker by giving 1 month's notice. If necessary, he can issue 1 month's salary and dismiss a worker in 1 week. At the same time, if a worker is dissatisfied with the treatment by the factory, he or she can also submit his or her resignation with a months' notice. This way, a system in which the factory owner can freely select his or her own workers and the workers can freely select their employer is formed, which is favorable to improving production efficiency.

Subjective Reasons:

1. On the Hong Kong market where competition is acute, the factory owners try by each and every means to bring forth new and rare products at the fastest speed for the survival and development of their enterprises.

They introduce some new science and technology (such as electronics, remote-control and microcomputers) into toy manufacture, and expand varieties accordingly. Currently, there are not only children's toys, but also adult toys and old people's toys (electronic games, mah jong sets and poker cards). Whenever a major piece of news or an event that attracts people's attention takes place in the world, the toy industry will have a new "conception." For instance, the "star wars" electronic games were once popular. New toy idols are brought forth for every new star and athletic champion. It takes less than 4 months from the "conception of an idea" to designing, modeling, entry into production and delivery of goods. In other places, often, it will take at least 6 months or more.

2. Attention has been paid to the quality inspection of toys, thereby enabling Hong Kong's toys to maintain a very high reputation on the international market. In the toy factories which we have visited, there are specialized personnel who are carrying on quality inspection on every production procedure.

Government Subsidy:

The toy industry is one of the four major pillars of Hong Kong's manufacturing industry. Proceeding from the purpose of increasing taxation, the Hong Kong Government has given subsidies through various means to the toy industry. These include primarily the following:

1. In order to open up the toy market, the Trade Development Bureau and other organs have set up 17 administrative offices overseas to specially gather information concerning the toy market and provide this information free of charge to the toy manufacturers.

2. The government has assisted the toy manufacturers to organize visiting delegations to inspect the toy market in the various developed countries and to take part in international toy expositions. Around early October every year, a toy and gift exposition is held in Hong Kong. Toy merchants from the United States, Canada, Japan and Western Europe are invited to attend the exposition and make arrangements for placing orders. Often, on each occasion, the orders total HK\$200 to 300 million.

3. The government has compiled a yearbook on Hong Kong's toys.

4. A toy profession has been set up at the Hong Kong Polytechnic College to train personnel in toy designing.

5. The government has carried out negotiations with the governments of the toy-importing countries in order to eliminate all kinds of trade obstacles in the export of toys, protect the patent for Hong Kong's new toy creations, and prevent imitation by overseas manufacturers.

6. To offer convenience involving the procedures for setting up or converting factories in the toy industry, a registration fee of only HK\$350 is required. Anyone can set up a toy factory or switch production at any time.

C. The Specific Situation, Existing Problems and Relevant Propositions Concerning Our Country's Toy Industry

The toy industry at home originally had a relatively good foundation. Between 1963 and 1966, the mainland ranked second in the export of toys to Hong Kong. At that time, the Japanese manufacturers were greatly threatened. However, since the "Cultural Revolution," the toy industry at home has been seriously undermined. Many traditional toys have been criticized as "feudalist, capitalist and revisionist," and production has been terminated. From 1967 to 1972, toys from the mainland dropped to third place on the Hong Kong market; from 1977 to 1978, to fourth place; from 1979 to 1980, to fifth place; and in 1981, to seventh place. In recent years, the position of toys from Denmark and Italy has risen on the Hong Kong market, while the position of ours has dropped even further. It is estimated that, in 1984, it will drop to ninth position. In the 1960's, any toy store would have a large number of toys from our country for sales. Now, most of the toy stores are full of products from Japan and toys made in Hong Kong. Toys from the mainland are rarely seen on the Hong Kong market. It is estimated that the toys from the mainland only constitute 1 percent, which means they have basically withdrawn from the Hong Kong market.

The primary reasons why our country's toys have lagged behind are:

1. Our country's existing economic system, financial and taxation system and planning system involving toy production are unfavorable to production and export involving the toy industry. For instance, in regard to the financial and taxation system, the toy industry must pay customs taxes for the imported raw materials necessary for the toy industry. The industrial and commercial taxes at home are levied according to the process of processing. Thus, the higher the specialization and the more processing procedures involved, the higher the taxes. Thus, the toy production enterprises lack enthusiasm. Or, for instance, after a toy model is made in our country, production of 500 dozens is arbitrarily fixed. However, the markets abroad change all the time. If the market is good, and a production increase is necessary, then, a plan for raw materials must be reported to the higher level. This will take a year, during which changes may take place again on the markets abroad.

2. We lack the conditions for cooperation and waste a large amount of manpower and material resources. The toy factories at home often go for a "large and comprehensive" setup. There is a surplus of designing personnel without interchange. Sometimes a large volume of raw materials is stockpiled, and other times, there is a shortage

in supply. We lack a flexible market mechanism. As a result, funds lie idle, cost increases and a cooperative mechanism is lacking among the factories and other concerned trades.

3. Inaccessible information, obsolete products, and failure to catch up with the new trend in the world.

Toys are labor-intensive products. Our country has an abundant labor force and has wages that are far lower than such places as Hong Kong. If we carry out reform in our existing system of management, system of taxation and cooperative relations, it is entirely possible to create a new situation in toy production and export for our country.

V. Hong Kong's Furniture Market

A. The Basic Situation of Hong Kong's Furniture Market

Furniture production in Hong Kong. Although Hong Kong lacks the raw materials, such as wood, metal and rattan, for producing furniture, yet, because it is a free port, there is no restriction on the import of raw materials. Thus, Hong Kong's furniture still develops to a certain extent. In 1983, the value of furniture output in Hong Kong was estimated to be HK\$880 million, constituting 0.5 percent of the gross value of output in Hong Kong for 1983, which was HK\$179.3 billion.

Hong Kong's furniture production mostly involves medium-sized and small factories. In 1982, there were 1,624 furniture factories, with 11,229 workers, with an average of under 7 people for each factory. There were only 2 furniture factories with 200 workers. There were only 20 furniture factories between 50 to 200 workers. Most of the factories are small, and are primarily involved in producing wooden furniture, and their output value constitutes 91 percent of the gross value of furniture output. The average annual output value for every furniture worker is HK\$80,000.

Hong Kong primarily produces medium- and low-grade furniture, half of which is consumed locally and half for export. The workmanship is coarse, but styles are renewed continuously, therefore making it more easily accepted by customers.

The amount of furniture consumption in Hong Kong. In 1983, the value of furniture consumption in Hong Kong was HK\$1.15 billion, 40 percent of which was furniture made in Hong Kong, which was HK\$460 million; 60 percent was imported furniture, which was HK\$690 million.

In 1983, the export of furniture made in Hong Kong totaled HK\$420 million, while transit trade involving furniture totaled HK\$350 million. The gross export value was HK\$770 million, constituting 0.5 percent of the gross export value for Hong Kong, which was HK\$160.7 billion.

Import of furniture to Hong Kong. With the continuous increase of Hong Kong's population and the improvement of the standard of living, the demand for furniture, especially for medium- and high-grade furniture, increases day by day. In the last 5 years, the import of furniture has shown an annual progressive increase at 20 percent. In 1983, the value of import totaled HK\$1.04 billion. The imported furniture varieties were primarily the following: wooden furniture, 58 percent; metal furniture, 22 percent; rattan furniture, 10 percent; mattresses, 6.5 percent; plastic furniture, 1 percent; and other furniture and parts, 2.5 percent.

Although our mainland ranked first in the export of furniture to Hong Kong, yet, the percentage has been dropping year by year. Inversely, Japan, the United States, Italy and the FRG are rapidly on the rise in exporting furniture to Hong Kong.

Prior to 1975, every year, our country supplies more than 60 percent of the imported furniture. We can say that, for a long period of time we basically monopolized the furniture market in Hong Kong. However, in 1983, the value of imports from our country totaled HK\$340 million, down 32.7 percent. In recent years, furniture imports from Japan have developed very rapidly; in 1983, the value of such imports was HK\$233 million, up 38.9 percent compared to 1982, occupying second place. The United States, the FRG, Italy and northern Europe mainly have high-grade furniture with new styles and colors, which suit the taste of the people of Hong Kong. Thus, their exports to Hong Kong are increasing year by year.

Hong Kong's furniture trade has developed rather rapidly. In the 1950's, the import-export amount only totaled HK\$50 million; in the 1960's, it was still only HK\$100 million; in 1979, it was HK\$830 million; in 1983, it developed to HK\$1.8 billion. Before 1979, the volume of trade doubled roughly every 5 years. Since the 1980's, the volume can double every 4 years. The speed of its development is slightly lower than the gross speed of trade development. Since the 1980's, with the exception of 1982, the average speed of growth in trade was over 24 percent. The value of trade involving furniture constitutes roughly 0.6 percent of the gross value of trade in Hong Kong, which is HK\$336.1 billion. It is much smaller than clothing, electronics, clocks and watches and toys.

Because furniture is a daily necessity, it is not greatly affected by the economic crisis and the demand grows steadily. In the last few economic crises, exports of transit trade in furniture in Hong Kong were affected, however, imports still grew to varying degrees. In recent years, the growth in the consumption of furniture in Hong Kong has been faster than before. With the development of Hong Kong's economy and the improvement of the residents' standard of living, the need for furniture will continue to expand.

B. The Major Characteristics of the Market for Furniture in Hong Kong

1. Fierce competition on the market. Being a free port, Hong Kong does not restrict the import of furniture. In particular, today, when the various countries are adopting the policy of trade protectionism and restricting imports, Hong Kong has become a ground for competition for all countries. In 1983, 33 countries and regions exported furniture to the Hong Kong market. In order to contend for the market, they had to improve quality, improve style, relax on credits and loans, strengthen advertising, offer free maintenance and accept returns, and increase sales commissions and offer free trips to the importing businessmen. These were the means of competition.

In order to expand its exports of furniture to Hong Kong, Japan sent designing personnel to Hong Kong to carry out studies, and invited importing businessmen to visit Japan. Also, it utilized modern technology to create wooden furniture in imitation of our country's style. It exchanged or accepted returns of damaged furniture. It offered handsome profits to the retail businessmen, who were, therefore, willing to import Japanese goods. Thus, in recent years, the export of Japanese furniture to Hong Kong has increased very rapidly. Japan has occupied second place in importing furniture to Hong Kong. The steel furniture of the FRG and Italy is world-famous. The style changes frequently, and the product is competitive. The wooden furniture of Taiwan Province, South Korea and Thailand has a smooth surface with meticulous workmanship. Recently, they have adopted the electrostatic spraying and pressing treatment, which produces better furniture than ours. Although the workmanship of the furniture made in Hong Kong is coarse, yet the style is new and delivery of goods is punctual. Thus, it also enjoys superiority.

2. Most of the furniture factories in Hong Kong are medium-sized and small factories, which can only develop in competition. The various countries in the world are engaged in fierce competition involving furniture on the Hong Kong market. However, the furniture factories in Hong Kong are still developing. The Hong Kong British Government does not organize production. It only levies income tax. Production is the private matter of the various manufacturers,

who rely on such organizations as the Association of Furniture Manufacturers, the Trade Development Bureau and the Productive Forces Promotion Center to assist in launching technological exchanges as well as understanding and opening up markets abroad. Most of the furniture factories in Hong Kong are medium-sized and small factories with small funds and small workshops. They sell on their own what they produce. They are more flexible than the large factories, are able to make changes rapidly and are highly adaptable. Sometimes, these medium-sized and small factories also enter into cooperative relations with the large factories and produce some parts for the large factories. The medium-sized and small factories have lower production cost. Also, they can accept orders of goods of all kinds of specifications. A small furniture factory which has some 20 people has its own designing personnel, however, it is primarily involved in copying imported goods. The prices of limitation are one-third lower. The factory managers not only know technology but also know business management. They adopt the approach of getting involved with whatever brings profit and disbanding whatever does not bring profit. They seek survival and development in competition.

3. Price is not the only competitive measure. It is unrealistic to think that we can sell anything at a low price and that this is the only competitive measure. Currently, the standard of living of Hong Kong residents is higher, thus low-grade furniture is gradually losing its attractiveness. Customers would rather spend more money to buy what pleases them. Price can only become a competitive factor when all the other factors, such as quality, style, packaging, delivery and special treatments involving furniture, are all acceptable. When all the other factors are inadequate, low price alone will not play a leading role. No one will be interested even in a low price if the quality is poor, the workmanship is coarse and the style is old. Inversely, if the customer is interested, then he will buy a product even if the price is higher.

C. The Existing Problems in the Export of Furniture From the Hinterland to the Hong Kong Market

For a long time, our country has enjoyed absolute superiority in exporting furniture to Hong Kong. In 1968, the export of our furniture to Hong Kong constituted 70 percent of Hong Kong's imports. We seemed to have monopolized the furniture market in Hong Kong. Afterwards, although there was a drop, our exports still constituted 60 percent. However, in recent years, our percentage has consistently dropped. In 1983, exports of our furniture only constituted 32.7 percent of Hong Kong's imports. If this does not improve, it will be difficult to prevent a downward trend. There may even be the possibility of changing from exporting furniture to importing furniture. In 1981, the export of furniture from Hong Kong to the

hinterland only totaled HK\$7.42 million. In 1982, this increased to HK\$15.16 million. In 1983, it totaled HK\$38 million. At this rate of growth, before 1990, our country will become a market for importing furniture.

What contributed to the emergence of this situation?

1. Backward style is the fatal blow to furniture in the hinterland. Hong Kong is a free port. Furniture can be imported from all countries. Competition is extremely acute. The style of the furniture from abroad and the furniture made in Hong Kong is continuously being updated. This suits the citizens of Hong Kong, thus, the volume of sales continues to rise. The furniture of the hinterland is referred to as "old-fashioned." Because its style changes slowly and fails to satisfy the desire of the customers, sales are restricted.
2. Coarse workmanship. In the past, the furniture of the hinterland had won a lot of buyers with real material. But this is a thing of the past. Now, the citizens of Hong Kong have improved their standard of living and make higher demands on furniture. Unlike the past, they no longer require durable furniture, but demand new style and pretty furniture which is both practical and which can decorate rooms. They do not care about materials. The furniture from abroad uses mostly particle board, medium-density fiber board covered with simulated wood contact paper, plastic boards and precious wooden veneers, with tight contact and well-wrapped edges. Very few pieces of furniture use real materials, but they are low in cost. Even when they come from across the ocean, the people of Hong Kong still find them pretty and inexpensive.
3. Inaccurate packaging dates and difficulty in supplying goods at a regular pace. Actually, compared to foreign countries, our country has many favorable factors, such as direct trains and coastal shipping, for exporting furniture to Hong Kong. However, in reality, we have often failed to deliver goods on schedule due to shortages of trains and ships. Sometimes, the Guangzhou would report shipments, yet the goods still did not arrive after 20 days. We can imagine what happens with other provinces. Sometimes, all the goods arrive at the same time. Being put in a passive position, the sales agents will lose their confidence in handling furniture from China.
4. Poor technological conditions, such as unsmooth surface treatment, inadequate dry treatment, appearance of cracks and changes of shape, difficulty in unpackaging and folding, failure to comply with the standard of structural parts, excessive screws, failure of the various nonferrous metal parts to meet regulations, and frequent rusting even after electroplating.

Of course, our country still has some redwood carved articles of daily use and old-style furniture with fine workmanship and good painting. But they are of small in quantity and expensive, thus sales are extremely limited.

D. Expanding the Export of Furniture From the Hinterland to Hong Kong

Furniture is a labor-intensive product. The machinery equipment required is not complicated. The facilities of the furniture factories in Hong Kong are not very advanced, and the workshops are not very large. Although machines are used for sawing wood and punching holes, they are manually operated. The degree of automation is low. Our country has many able workers and craftsmen, and also does not lack the wood for making ordinary furniture. It is possible to expand the export of ordinary furniture. We should train some designing personnel as well as import some furniture-processing machinery. According to a report by the Yinianyi Machinery Co, a carpentry machinery set only costs HK\$200,000. With 30 staff members and workers (20 workers), every person can bring about an output value of HK\$60,000 to HK\$80,000 every year. If we import some fine-quality veneer and other such materials, we can produce high-grade furniture for export.

In Hong Kong, 98 percent of the citizens are Chinese who have the habit of using and appreciating Chinese-style furniture. Most of them love their motherland and are also willing to buy goods from China. As long as we overcome the shortcomings of backward style and coarse workmanship, and make sure that we have a steady supply and deliver goods on schedule, we can make the furniture of the hinterland competitive.

In order to expand the export of furniture, we can also adopt diverse means, such as processing of imported materials, compensation trade, and running of factories through joint investment or sole investment to develop furniture production. At the same time, we must specify and standardize the metal structural parts, such as handles, joint plates and screws, used by the board style furniture, and make sure that they are of high quality and are rustproof.

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CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

HUNGARIAN ECONOMIC MANAGEMENT REFORM

HK150600 Beijing SHIJIE ZHISHI in Chinese No 7, 1 Apr 85 pp 7-8

[Article by Chen Xueyan [7115 1331 3601]: "Perfecting the System to Promote Production -- Hungary's Achievements in Reforming the Economic Management System" -- passages enclosed in slantlines denote boldface]

[Text] Hungary is one of the East European countries which has made prominent achievements in reform of the economic management system. Practice in the reform since 1968 has proved that the current economic management system is suited to Hungary's national conditions. It has promoted national economic development, improved the livelihood of the people, and raised their standard of living.

Hungary's economic management system reform and its economic development are promoting and complementing each other. Last year its domestic policy was focused on perfecting the current economic management system, thus enabling Hungary to make good economic achievements. National revenue in 1984 was 800 billion forints, an increase of 2.8-3 percent over 1983. Industrial production increased by 3 percent, overfulling the plan. Agricultural production increased by 2.5-3 percent, close to the plan. Grain production hit an all-time high, with a total output of 15.7 million tons, an increase of 2 million tons over 1983. There was a marked increase in export trade in 1984, with a favorable balance of \$750 million. The total foreign debt dropped and there was an improvement in state finances. This has created favorable conditions for fulfilling the present 5-year plan (1981-1985) and has laid a material foundation for the next 5-year plan.

There are hard-won successes. In his New Year Message last year, Pal Losonzi, president of the Presidential Council of the Hungarian People's Republic, pointed out: We cannot say that things have been easy for Hungary over the past year. External conditions for economic construction continue to deteriorate. However, the achievements made by Hungary under a situation worse than expected should not be underestimated.

Hungary's basic tasks for this year are to further strengthen the favorable balance of foreign trade and to further reduce foreign debts so as to lay a foundation for developing the economy by a greater margin.

/Regarding the relationship between central planning and regulation by market mechanism, the government stressed: In 1985, we will further implement the popularly accepted principle of organically combining central plans with regulation by market mechanism/, opposing not only the practice of using the role of market mechanisms to hamper the necessary administrative interference, but also the tendency of overstressing the role of central economic management and reducing the role of market mechanism so as to prevent setting one against the other. The government indicated that the national economic plan is not only an economic plan but also a social plan. In working out the 1985 economic plan, the government will develop a democratic work style and solicit opinions from trade associations, trade unions, the national council of cooperatives, and economic specialists. In drawing up annual plans and 5-year plans, the government will take account of the changes in international economic conditions, will not set a target too high and too rigid, and will increase the flexibility of plans to such a way that they can be amended and even annulled according to the changes in the situation. But the government will not encourage arbitrary amendments in plans. In formulating the Seventh 5-Year Plan, the government will simultaneously consider working out a plan for the coming 2 to 3 years.

The Hungarian Government holds: /some economic means and encouragement regulations in the 1968 economic management system are outdated. In 1985 it is necessary to work out new encouragement regulations and a new regulating system./ Under the present situation that foreign economic relations are playing a more important role, a new regulating system must be drawn up in such a way that it will help improve economic results.

For this reason, in developing the relationships between commodities, currency, and the market, it is necessary to form a capital market (where a capital distribution mechanism will be exercised and bonds issued), to implement a new wage policy and new income distribution principles, to reform the taxation system, and to bring into play the role of banks and credit. In this spirit, Hungary's enterprises will start issuing bonds to their employees this year. To encourage the people to make good suggestions for improving economic results, Hungary's enterprises carry out creation and invention day activities apart from running innovation fund societies. Regarding the taxation system, this year the government will reduce the taxes on profits and abolish the present method of centralizing the depreciation funds of enterprises. To make up for the shortage of income and encourage the rational use of funds, the government has provided new taxation rules. In 1985 the general policy for regulating enterprises' income and wages is to implement in a better way the principle of distribution according to the work done. Except the part of income that must be taxed, the departments in charge will not interfere with the way enterprises obtain and use their income. Beginning this year Hungary will strengthen the role of specialized banks. From now on, banks are free to establish ties with enterprises and can directly make investments in enterprises and participate in distributing the profits

obtained from investment. Financial institutions can set up joint-stock companies between themselves or with enterprises. Enterprises can set up financial organizations and circulate funds between themselves.

The Hungarian Government holds that to maintain a budget balance, to rationally use and save raw materials, and to reduce state subsidies, it is necessary to raise the consumption prices (retail prices) of commodities and to increase the wages of staff and workers and provide them with various subsidies when prices rise.

Hungarian economists maintain that now enterprises are not merely executive organs of the central authorities but are economic units which carry out activities according to their own objectives and economic conditions. /For this reason, the decisionmaking power of enterprises will be further expanded in 1985./ Jurisdiction of various government departments and local legislative assemblies over enterprises will be reduced. The departments in charge will no longer meddle in the vocational activities of enterprises. Their functions will be to exercise legal supervision over enterprises and supervise enterprises in observing economic ordinances and in obeying labor protection rules. If enterprises violate ordinances, the department in charge will warn them or even abolish their decisionmaking power. In the event of dispute, either side can file a lawsuit in a court, which will handle the dispute according to law.

In the course of economic management system reform, /the changes in the organizational system are a distinctive feature of 1985./ The government has decided to adopt three methods of leadership with regard to enterprises:

1. Large enterprises under state administration consist of enterprises producing energy, engaging in communications, posts and telecommunications, and national defense work, and providing public service, or enterprises sorted out by the government under consideration from a certain angle. Leaders of these enterprises are appointed by the government and the term of office is fixed. These enterprises have managers' committees and supervisory committees for inspecting their products and service.
2. Large enterprises will set up enterprise committees, which are the decisionmaking organs of these enterprises. Enterprises' committees are responsible for working out plans and arranging production, operations, and personnel. Administration is composed of managers, assistant managers, responsible persons of workshops, and workers' representatives, including party, youth league, and trade union representatives. Enterprise committees will elect their directors and deputy directors as well as factory heads, and the appointment of these persons will be made by the department in charge.
3. The employees of some medium-sized and small enterprises will directly elect their managers, where as other principal responsible persons will

be nominated by factory directors. The department in charge will approve and issue certificates to them after election. Apart from holding elections, small enterprises with 200 to 300 persons can invite applications for the post of factory directors and managers. The workers have the right to dismiss elected factory directors, and hired factory directors should sign contracts with the department in charge. These three methods of leadership have not changed the basic principle of the factory director (manager) responsibility system. The purpose of reforming the organizational system is to develop a democratic work style, to bring into play the initiative of the staff and workers, and to give more power and responsibility to leaders so as to improve efficiency in production.

/The Hungarian Government maintains that political system reform is the guarantee and basis for promoting economic management system reform./ Therefore, it attaches great importance to political system reform. An important purpose of political system reform is to enable the party to play an effective political role in leading economic management system reform and to become the necessary motive force of such economic reform. The Central Committee of the Hungarian Socialist Workers' Party pointed out: Under no circumstances can party organizations replace economic organizations in exercising direct leadership over economic work. But this does not mean that the party should "withdraw" from the economic sphere. On the contrary, the party should shoulder heavier responsibilities in suiting the economic line and principles and economic practice to socialist criteria and requirements. Party organizations of enterprises should help responsible persons of enterprises fulfill their tasks and educate party members to play an exemplary role in production.

Another important purpose of political system reform is to change state functions in economic management. In the period of giving prominence to politics and state activities in the past, not only did the state "interfere" in the economy, but it also adopted various decisions to "substitute" for the "autonomous" task of leading the economy.

Following the implementation of the new economic management system, the state has greatly reduced its function of interfering in the economy. The state's economic functions are: To work out economic policies, to ensure internal conditions for external economic activities, to formulate and implement the state budget, to rationally distribute some materials, to create material conditions for scientific research, and to solve other important problems.

Hungary's achievements in its economic reform are obvious to all. However, the Hungarian comrades did not deny their difficulties and problems. They said that economic reform will not immediately solve all problems. It is necessary to constantly probe into problems and perfect the system. In this way, they will successfully realize economic and social targets through reforms.

HONG KONG MEDIA ON CHINA

SHENZHEN'S FAILURE TO ATTAIN SPECIAL ZONE GOALS DISCUSSED

Hong Kong TA KUNG PAO in Chinese 3 Apr 85 p 5

[Article by Lei Jingbin [7191 0352 2430]: "Why Shenzhen Should Not Issue Currency for the Time Being"]

[Text] Starting from scratch 6 years ago, the Shenzhen Special Economic Zone (SEZ) has now gradually taken shape. Its achievements, which cannot be denied, were again affirmed recently by three vice premiers when they were interviewed in Beijing by reporters from Hong Kong and Macao. But controversy has arisen in the National People's Congress and the Chinese People's Political Consultative Conference over the issue of a special economic zone currency and the establishment but not the use of the second management line.

A research fellow at the Asian Studies Center of the University of Hong Kong, Chen Wenhong [7115 2429 7703], told reporters during an interview that the most important question in the currency debate is how to secure enough foreign exchange reserves to stabilize the value of the currency, if it is issued.

Three Objectives Have Not Been Achieved

Quoting statistics released by Shenzhen, Chen Wenhong said the municipality (which includes the SEZ) ran up a deficit of almost \$200 million in its international balance of payments in 1983, and noted that things probably did not improve much in 1984. If the zone decides to issue its own currency and the deficit continues, either one of the following is necessary to close the gap: 1) appropriations by the central government, or 2) increasing the amount of currency in circulation, that is, printing more money. But this move will lead to inflation, which, in turn, will cause the currency to depreciate.

Long-term Deficit in Balance of Payments

As originally conceived, a special economic zone should be industry-oriented, export-oriented and geared towards foreign trade. But judging from the way Shenzhen has developed in the past 6 years, these objectives have not been fulfilled. Even Vice Premier Yao Yilin [1202 0181 2651] made it clear to Hong Kong and Macao reporters that the economy of the SEZ is one-third external and two-thirds internal and that it still depends on state support.

Chen Wenhong believes that it is the zone's failure to live up to its original expectations which has caused its persistent balance of payments deficit. At the moment, its economy remains essentially inward-looking and heavily dependent on entrepot trade. He said that commodity prices in the zone are halfway between those in Hong Kong and Macao, on the one hand, and those in the interior, on the other. Because the zone does not impose tariffs, which means lower prices, it has attracted a stream of shoppers from the interior and Hong Kong and, in the process, has transformed itself into a center for retail entrepot trade. However, in the wake of the Hong Kong government's move to limit the quantities of tariff-free cigarettes and liquors that tourists can bring back from the zone, Shenzhen's entrepot trade will become even more dependent on the interior, which will only mean a widening deficit.

Use of Second Line Will Be Disastrous for Entrepot Trade

Chen Wenhong said it is the desire to contain the zone so as to strengthen its external economic orientation and make it more outward-looking, which has prompted Shenzhen to consider using the second line. But given its lack of an industrial base and the fact that its products are not yet competitive enough in international markets, any arbitrary decision to use the second line will only spell disaster for its entrepot trade, the lifeblood of the zone. At the same time, the zone will be that much more tempted to sell "inferior goods" abroad in a desperate search for foreign exchange income. As a result, China's foreign trade policy and development will be undermined and disrupted.

Development as an Import Processing Zone Suggested

Chen Wenhong suggested that China consider letting Shenzhen become a temporary "import processing zone," processing and producing some products now on the country's shopping list. By "producing, instead of importing," it can cut down on the foreign exchange funds needed to finance the purchase of foreign goods and, through processing, gradually develop Shenzhen's industrial technology and build up its industrial base.

In Chen Wenhong's opinion, the zone's economy will naturally become more externally oriented when its industrial base matures and its products can compete effectively in international markets. The issue of a special zone currency and the use of the second line will then no longer present any problems.

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